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INCORPORATED ACCOUNTANTS' HALL,
VICTORIA EMBANKMENT, LONDON, W.C.2.

The Society of Incorporated Accountants and Auditors

(A.D. 1885).

EXAMINATIONS.

FINAL EXAMINATION will be held on October 31st, November 1st & 2nd, 1939, in the following subjects :—Advanced Accounting, including Accounts of Partners and Executors and Income Tax; Auditing and the General Duties of Professional Accountants including Income Tax ; Costing Accounts ; Statistical Methods ; General Knowledge in regard to Commerce and Finance ; the Law relating to Joint Stock Companies and Bankruptcy ; Mercantile Law, including Partnership Law ; the Powers and Duties of Liquidators, Trustees, Executors and Receivers ; and Economics.

INTERMEDIATE EXAMINATION will be held on November 1st and 2nd, 1939, in the following subjects :—Book-keeping and Accounts, including Income Tax ; Book-keeping and Accounts, including Partnership and Executorship Accounts ; General Commercial Knowledge ; Cost Accounts ; Commercial Law ; the Powers and Duties of Liquidators, Trustees, Executors and Receivers.

PRELIMINARY EXAMINATION will be held on October 30th and 31st, 1939, in the following subjects :—ENGLISH, comprising : (*a*) One Paper on General Knowledge, including the main outlines of Modern English History from Norman Period to the present time, and General Geography ; (*b*) An Essay ; (*c*) General Questions testing knowledge and command of English and English Literature. ONE FOREIGN LANGUAGE, comprising : French, German, Spanish, or Latin (to be selected by the Candidate). MATHEMATICS comprising Arithmetic, Algebra, and Geometry. (Candidates wishing to be examined in Spanish must give six weeks' notice to the Secretary.)

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The last date for receiving applications is September 28th, 1939.

Incorporated Accountants' Hall,
Victoria Embankment, London, W.C.2.

A. A. GARRETT,
Secretary

NOTE :—Complete sets of past Examination Papers may be obtained of the Secretary, price 1s. per set.

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PROFESSIONAL NOTES

Emergency Measures

In the face of the war danger, the past week has been one of quiet determination and uninterrupted transition to an emergency basis. In the economic and financial spheres one step has followed another in rapid succession. The bank rate has been raised to 4 per cent.; minimum prices have been fixed for gilt-edged securities; the export of essential commodities has been restricted; official support for sterling in the exchange markets has been abandoned; dealings in oversea securities with non-nationals have been prohibited; the merchant shipping of the country has been placed under the control of the Admiralty; the Government's war risks insurance scheme for goods has been set in motion; powers of control in business and civil affairs have been given to the authorities by orders issued under the Emergency Powers Act. The full list of emergency measures is a long one, but it is short enough compared with what war itself would bring. Full-bodied control of our economic life has not yet arrived. Whether or not it does arrive depends upon whether or not a war is precipitated. In the meantime these various steps are only preliminaries in securing our position on the economic front.

The Bank Rate Change

The doubling of the bank rate, which had been at 2 per cent. for more than seven years, immediately produced a rise in the rate on Treasury bills from 1 per cent. to about $3\frac{7}{8}$ per cent., while the banks' deposit rate rose from $\frac{1}{2}$ per cent. to 2 per cent., and the rate at which they lend to the money market moved from $\frac{1}{2}$ per cent. to 3 per cent. The normal adjustments of the complex of short-term interest rates to movements in bank rate, which the long duration of cheap money had caused to grow dim in the memory, thus took place. In some quarters stress was placed on the argument that the rise in bank-rate did nothing at all to protect sterling relatively to other currencies. It was pointed out that the volume of our commercial acceptances and, therefore, the volume of funds which would be attracted in repayment of acceptance credits at the more favourable rate, is now—unlike the position obtaining in 1914—severely limited. It was argued

that flows of money between one centre and another are no longer sensitive to differences of interest, the factor of security being so overwhelmingly important, so that money would not be attracted to London by the change—or, rather, the outward flow of funds would not be arrested. These arguments are forceful enough, but there are other aspects of the rise which the authorities doubtless found sufficiently important to cause them to take the step. In the first place, though the real significance of a rise in bank-rate in attracting international funds is now very little, it is still generally regarded as a sign that the country is securing its economic defences—an impression which it was important to create. In the second place, a rise in interest rates, though adding to the cost of further instalments of national debt, makes the actual floating of them easier. In the third place, we have reached the point—as is shown in an article on following pages—where, failing an upward movement of interest rates, the point where inflation begins is not very far off, and where, therefore, considerable expansion of bank credit, which alone could enable short-term debt to be taken up at low rates, would have unwelcome implications.

Conserving Our Monetary Resources

After the rise in bank rate came the freeing of sterling from official control. The Exchange Equalisation Account ceased to intervene in the exchange market and the pound was left to find its own level. It would, indeed, have been a monstrous wastage of resources if the dollar rate at which sterling has been pegged for some time (at around $4.68\frac{1}{4}$ to £) had still been maintained by official sales of foreign currency and gold. Instead, those resources were conserved against the time when they may be needed for purchases of materials abroad. America accepted with complete equanimity this departure from the tripartite currency agreement into which we entered with her and France and the pound moved down abruptly. It has since fluctuated between $4.10 and $4.30. Not all of this depreciation was due to the developments of the last week, for the pound has been under pressure for some time, though admittedly this has been due to the prolonged uncertainty in international affairs. The unpegging of the pound leaves the Exchange Equalisation Account and the Bank of England with gold estimated to amount to nearly £500 million—a massive war chest—and these resources are increased by the realisable foreign securities held by British nationals. In the event of war such securities could be bought or borrowed by the British Government and sold on foreign markets in exchange for foreign currencies, with which materials and foodstuffs could be purchased. The volume of such securities was recently estimated at about £1,000 million. The Government has taken steps to ensure that this store of resources is not depleted. All British holders of securities of certain foreign countries are bound to make a return of their holdings to the Bank of England within one month, on a form which can be obtained from the holder's usual stockbroker or banker. The countries concerned are Argentina, Belgium, Canada, France, Holland and the Dutch East Indies, Norway, Sweden, Switzerland and the United States of America. It is also provided that the owner of such securities shall not sell or transfer them unless permission has been granted by the Treasury for such a transaction. The aim of this provision is to prevent the ownership of the securities passing out of the hands of British nationals; permission will be granted until further notice for the transfer of securities to persons resident in the United Kingdom, but for any transfer whatever an application must be made to and approved by the Bank of England. Stockbrokers or banks may make application to the Bank of England for this purpose.

The Crisis and the Stock Exchange

The Stock Exchange repercussions of the acute tension of the last week have been pronounced. The slump in British Government securities and the potential increase in selling pressure caused the Stock Exchange Committee to rule that no dealings in gilt-edged securities should be permissible below certain minimum prices. These prices were based on those quoted on August 23 but the minima may be varied should the Committee so decide. Roughly speaking, the minimum prices place British Government credit on a 4 per cent. basis. In the last day or two, however, there has been a small volume of buying at rather more than the minimum prices so fixed. The *Financial News* index of fixed interest securities on August 29 was 112.1, compared with 118.0 a month earlier. In the industrial securities market the movement as a whole was downward but in certain sections some recovery has taken place in the last few days. In particular, the rise in the price of gold to a record figure of 161 shillings per fine ounce, the normal consequence of the depreciation of sterling, caused an upward movement in gold shares. Other commodity shares which might benefit in the event of hostilities—mainly copper and oil shares—were also being purchased towards the close of the month. The index of industrial securities on August 29 was 77.5, compared with 81.2 a month previously. Owing to the regulations noted above regarding the transfer of foreign securities, dealings in securities of the United States and the other foreign countries listed were at a standstill.

Accountants and the Crisis

Accountants whose names have been included on the Central Register are informed that they will be communicated with if and when their professional services are required by the Government. The number of accountants on the register amounts to about 14,300. As was said early in August in a

Parliamentary answer (given on page 449 of this issue), volunteers must not expect to be allocated to specific posts in advance of an emergency. They may, however, rest assured that the machinery for the allocation of posts is ready to be put in motion when required. For some time past, many accountants have been considering what arrangements they might make for the safeguarding of their practices in the event of their being called away upon military or national service in the event of war. In many cases firms have, we believe, already made their own private arrangements for the temporary taking over of practices. But in many instances, especially where a practice is in the hands of a single accountant or only two partners, such arrangements have not yet been made. With a view to assisting in such cases, the Society of Incorporated Accountants has circularised all its District Societies asking them to consider the possibility of drawing up two lists—one to contain the names of Incorporated Accountants who would be willing to take over the practices of absentee practitioners on terms to be agreed in each case, and the other to contain the names of practitioners who might require to have their practices taken over in this way. The Society has also sent to its District Societies a note of points which would probably need to be considered in any arrangements of this sort, but it is to be noted that the Society has not set out anything in the nature of a general scheme or a draft agreement, since the matter is one for personal adjustment and circumstances will be considerably different from one case to another. Any arrangements which are made must depend upon mutual goodwill among practising accountants. The lists are intended only to bring together members of the Society of Incorporated Accountants who wish to discuss the possibility of coming to an agreement to suit themselves.

Evacuation Plans

For some time past many business houses in vulnerable areas have had evacuation plans in hand and the last week has brought a rapid increase in the number of organisations which would leave the big centres, especially London, in the event of war. Many of the banks and insurance companies have taken emergency premises outside London and some of them have already sent part of their staff to carry on business from the new addresses. Another large problem with which these and other business organisations have been faced has been the safety of essential records, including those of clients. We have heard of many cases where insurance companies, banks and commercial companies have entirely duplicated their books and records, the duplicate copy being sent into premises in the country. Professional accountants have also had to consider these twin questions of evacuation and the duplication of books and clients' records. A number of firms of accountants have duplicated all important papers. So far as we are aware the majority of firms of accountants in London have not so far made plans to remove to the country in the event of war, though they would doubtless have to consider this in the light of developments. Professional accountants are largely dependent in this matter upon the steps that are taken by their clients and many accountants have expressed the view that they will need to wait to ascertain what their clients propose doing. Another consideration is that accountants who have been enrolled upon the Central Register may be required to perform professional services by the authorities and this factor may influence their decision as to evacuation. So far as the headquarters of the Society of Incorporated Accountants are concerned it is intended to continue at Incorporated Accountants' Hall as long as that course is practicable, but plans for evacuation have been drawn up and will be put into effect should the situation make it necessary. In that event all members of the Society would be notified of the arrangements.

War Risks Insurance

To cover war risks at sea, shippers of cargo now have to pay very considerably more than they were paying before last week, unless their shipments are to or from the United Kingdom, in which case they come within the Government-sponsored scheme whereby the underwriters' pool grants insurances at moderate rates limited in a upward direction. Shipments not coming within the pool scheme attract a premium fixed at the discretion of underwriters and the tendency during the past week has been continually upward. British traders have good reason to be thankful for the institution of the pool some months ago, for it has prevented the interruption of British trade which unrestricted underwriting for shipments to and from this country would undoubtedly have produced. Apart from marine war risks, the Government scheme for insuring stocks on land against war has now been put in hand. This scheme was explained briefly in a professional note appearing in the last issue of ACCOUNTANCY. In regard to real property, it is satisfactory to note that a month ago the Government set up a committee of five, under the chairmanship of Lord Weir, to investigate possible war risks insurance schemes. It would be more satisfactory, however, if the report of this Committee could be presented without delay. A number of possible schemes have been elaborated by independent persons and bodies and one, prepared for the Association of Chambers of Commerce by a Committee of which Mr. Henry Morgan, F.S.A.A., was the Chairman, has received considerable publicity. With circumstances as they are, the need for some form of cover for property owners against war risk damage becomes increasingly urgent. We hope the Committee will present its report as early as is humanly possible and that the Government will take very early action.

Does it mean Inflation ?

When this country decided in 1937 to finance rearmament partly by means of borrowing, it abandoned a cherished tradition of balanced budgets. At the time this was regarded as a revolutionary departure for peace-time. But so long as the prospective borrowing was limited to relatively moderate sums which could easily be raised by public subscription—at first the amount contemplated was no more than £400 million spread over five years—the change remained a purely fiscal one. As a concession to circumstances beyond our control we were prepared for a time to see an increase in the national debt. But that was all. For the rest, it was assumed, our finances would continue to be conducted on the same conservative principles as before.

In the past few months, however, as the sums required for defence have grown ever larger, the significance of arms borrowing has fundamentally changed. Even at the time of the Budget, when Sir John Simon decided to raise from revenue only £230 million of his £580 million arms bill and borrow the remaining £350 million, it was felt that we still might "make it" by orthodox methods. But when this year's prospective expenditure mounted still further to at least £730 million, of which not less than £500 million is to be borrowed, many observers felt that expenditure on this vast scale must sooner or later end in inflation. War itself, of course, would speed up the tempo of all changes, and it is proposed to discuss only the monetary prospect if recent trends continue substantially unchanged. Would this imply inflation ?

Before answering any question, it is as well to be quite clear what it means. This is particularly important when discussing a subject such as inflation, which means different things to different people. Not so many years ago, an expansion of bank credit in almost any circumstances would generally have been regarded as inflationary. Thanks largely to the influence of Mr. Keynes, our attitude has changed. Most economists now reserve the term inflation for an expansion in credit which is not accompanied by a corresponding increase in the supply of goods, so that a rise in prices results (unless technological progress is reducing costs at the same time).

Thus an expansion of credit—which will be brought about if a Government deficit is financed by the sale to the banking system of Treasury bills or other Government securities—is regarded not only as safe but actually as beneficial so long as unemployed resources exist. The spending by the Government of this additional money will absorb some people into employment directly ; and as in turn the new incomes are spent, unemployment will decline in the consumption goods industries. This is the famous " multiplier " action which has been so much in the public eye lately. Only when any further increase in production must be effected at a higher level of costs—owing to the absorption of all the unemployed resources capable of being readily brought into production—does monetary expansion become inflation in the significant sense. And even when this point is reached there are different degrees and kinds of inflation. There is all the difference in the world between the avalanche of paper money which caused such havoc in Germany in the twenties (wiping out the savings of the middle class and preparing the way for the Nazi State), and a slow and gentle rise in prices spread over many years—even though the latter might eventually have unpleasant consequences.

In the light of these general remarks, let us see what rearmament borrowing has meant so far. Take the monetary side first. It is quite certain that credit expansion is already in progress, yet the banking statistics do not show it without careful examination. The note circulation, certainly, jumped to record heights over the holiday period, and on August 16 was almost £30 million higher than a year earlier. But there has actually been a distinct contraction in the basis of credit. The Bank's purchase of £20 million of gold and of some £8 million of securities scarcely sufficed to neutralise the rise in the note circulation, while the proportion of this credit available to the banks as cash has been reduced by the abnormally high level of public deposits. Thus the July clearing bank averages showed that the banks held only £235 million of cash, or £9 million less than a year earlier. At the same time, their deposits were actually £69 million lower on the year at £2,240 million.

This apparent contraction in deposits, however, disguises a real expansion. For one thing, the bulk of the £36 million net decline in securities probably represents writing down, out of investment reserves, purely impersonal accounts which nevertheless figure in the deposits item, so that the corresponding contraction in deposits is fictitious. What is more important, the year has seen an enormous efflux of idle foreign deposits, which have been replaced by active domestic deposits. How great the efflux of foreign deposits has been it is difficult to guess, but in the past year it may well have exceeded £200 million. In this case, the past year would have seen a true expansion in domestic deposits of over £160 million.

Turning now to the side of production, we find that this monetary expansion has been accompanied by a reassuringly rapid increase in output. Pro-

duction in the second quarter of 1939 was some 10 per cent. higher than in the corresponding quarter of 1938. Unemployment since January has fallen from 2,039,000 to 1,256,000—a decline of 783,000 in six months; employment has risen correspondingly to 12,064,000, or 350,000 more than at the peak of the 1937 boom. Meanwhile prices, both wholesale and the cost of living, remain stable.

Thus we are certainly not in an inflationary phase yet. Whether inflation will come depends, first, on how far the expansion in credit will continue, secondly, on how much farther production can be increased without a rise in costs. Even if war is averted the Chancellor expects a true deficit of £500 million; but this does not tell us how much new credit will be created. On the one hand, the accumulation of resources by the Unemployment Insurance Fund and other extra-budgetary funds (such as the Post Office Savings Bank) may reduce the true excess of Government disbursements over receipts by, say, £60 million. How much of the defence borrowing will result in credit expansion depends, again, on the method of finance. The Chancellor has stated that £150 million may be raised on Treasury bills. That part will certainly be expansionary, for the banks will undoubtedly be given enough cash to take up these bills without reducing other assets (that is, restricting advances and selling securities). On the other hand, the public as well as the banks subscribe for long-term issues; and we do not know—nobody can yet know—in what proportion the £350 million of Defence loans will be taken up respectively by the public and by the banking system (directly by subscriptions, indirectly by advances to facilitate public subscription or by taking on additional bills if the public departments have to support the issues). All one can say is that political anxieties reduce the chances of a successful issue to the public, so that the expansion of deposits is likely to continue at a high rate. At the same time, if these deposits are being held idle through hoarding the expansionary effect is largely neutralised.

How far production can be expanded is again largely a matter of guesswork. The existence of over 1,250,000 unemployed, though socially distressing, may seem a reassuring safeguard against inflation. But it is generally agreed that this figure could hardly be reduced substantially below 1,000,000 merely by monetary expansion—in other words, that "full employment"—to use the economist's term—would be reached with that number of unemployed. On this basis, the beginnings of inflation would seem to be only a very few months away. Of course, production could be expanded much further by an energetic Government policy of labour transference, the erection of factories and placing of orders where the greatest unemployment remains, the bringing into industry of large numbers of extra workers (women and girls not normally in the labour market), and—with the co-operation of the trade unions—the replacement of skilled by semi-skilled labour and an increase in working hours. Active measures to expand production along these lines would no doubt be taken in the event of war, when in some ways they could be carried through more easily. But any large-scale interference with production through air raids would make the problem of avoiding inflation correspondingly more difficult. On the one hand, the flow of goods would be reduced; on the other hand, the Government would be compelled in some way to assist those whose incomes were destroyed. If war is avoided it is to be hoped that an energetic policy to facilitate an increase in production will still be carried out. But even in that event it would not be very realistic to suppose that credit expansion will cease immediately full employment is reached. Under present conditions the rise in the rate of interest would be too sharp and the depreciation in existing securities too severe.

Thus one is forced to conclude that some measure of inflation is not far off. War apart, it should prove a mild and comparatively innocuous process. At a guess, one would place the probable expansion in bank deposits at something of the order of £300 million a year, which would be about 13 per cent. of existing deposits but only about 5 per cent. of the national income. Thus the rise in prices would be slow and gradual. Moreover, it would begin in the defence industries and only after a time affect the cost of living. A rise in the cost of living (which is the chief danger point) should, moreover, be postponed by the low level of primary commodity prices, though the depreciation of sterling has already been accompanied by a moderate rise in many important commodities. Notwithstanding this, a rise in the internal price level could be further postponed by differential taxes against luxury imports and by a gradual lowering of the protective barriers built up since 1931, except in so far as these really serve a useful purpose for defence—which they do to only a very limited extent. Action along these lines has been rendered even more vitally necessary by the unpegging of sterling, since even a moderate rise in internal prices must handicap the export industries unless matched by an equally rapid rise in the costs of our competitors. Since the volume of imports must remain high, any such development would confront us with a series of almost equally unpleasant alternatives; either we should have to allow sterling to depreciate further or we should have to make inroads into our gold reserve or foreign securities assets in order to support it, or the standard of living would be depressed by restrictions on inessential imports. None of this is very pleasant. All we can do is calmly to face the fact that a certain amount of financial dislocation must be added to the direct cost of the rearmament forced upon us by the intransigeance of Continental dictators.

The Rationale of Double-Entry—I

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We are often told that it is one of the characteristics of the English people that, possessing a technique which seems to us to work quite satisfactorily, we do not trouble overmuch about the logic underlying it. Like most generalisations, this one is usually based on a few stock examples which everybody quotes. But in the matter of accounting theory there seems to be at least a grain of truth in it, as those acquainted with the Continental and American literature will agree. A reference to some of the most successful textbooks in current use in this country will make it evident that their large sales are certainly not due to the care with which they examine, for instance, the concept of profit, nor to the depth of their analysis of the principles underlying double-entry book-keeping. In the main they teach by means of examples and the provision of rules relating to methodology, the theory of the subject being accorded merely a paragraph or so. Even this lip service seems in many cases to be forgotten after the author has written another twenty pages, for it would often be difficult to bring the examples given into the framework of the theoretical paragraph.

The general attitude seems to be that, after a detailed study of the trees, the wood will become fairly obvious; it is not so much that we are contemptuous of general principles as that we tend to be oblivious of them. However little attention we may pay to the underlying logic of book-keeping, we certainly show as much respect for its rules as those who devote more time to its analysis. In our formative years we learn to accept double-entry as an article of faith and then tend to regard it as the only respectable way of ordering accounting life. To examine or question its fundamental importance would hardly occur to most accountants.

It would, however, be wrong to push this generalisation too far; there have been in the past and are to-day important exceptions. Alexander Malcolm in 1718 and F. W. Cronhelm in 1818 are but two examples of British writers who attempted to probe below the surface of double-entry technique. Moreover, in the last few years, perhaps under the influence of the American example, perhaps as a result of the slowly growing collaboration with academic institutions, the emphasis has been laid to a much greater extent on the underlying principles of double-entry, teachers encouraging the students themselves to apply these principles to the thousand and one situations which arise in modern business. *Accounting* (Part I), by Rowland and Magee, is an excellent example of this type of approach.

Attempts to uncover the logic underlying book-keeping technique are by no means valueless even if judged from a purely utilitarian viewpoint. A particular technique may work extremely well in certain conditions; it may be suited to those conditions because of the principles underlying it. If, however, the principles are unrecognised we may attempt to use the technique in circumstances where something quite different is necessary. An understanding of this is likely to result in the more intelligent use of the tools at our command.

It may therefore be worth while to examine some of the attempts to give double-entry a theoretical background. In doing this, it is necessary to distinguish those artifices which have been or are adopted with the sole purpose of facilitating teaching. In learning book-keeping some people are greatly helped by the use of metaphors which, having served their purpose, are later abandoned. These devices should not be confused with statements which are put forward as the general principles of the subject; unfortunately in much of the literature it is not always easy to distinguish the two.

The Personification of Accounts

An example of this confusion is seen in what is sometimes called the " personalistic " theory of book-keeping. Each account is thought of as a real person debited, i.e., charged with values committed to his care and credited, i.e., discharged from those values which he relinquishes. Cash is thought of in terms of the cashier, stores in terms of the storekeeper. Such fictions were used by early writers such as Stevin, Dafforne and Flori; but these writers, as surely most of their modern counterparts, were under no illusions regarding the expedient they employed. The nineteenth century, however, did produce writers who were prepared to defend the personification of accounts as something intrinsic to book-keeping. Francesco Marchi, for example, defended it vigorously on the ground that all assets must be in the hands of somebody, whether it be an employee or the proprietor himself. Hence there could be no impersonal accounts. Another writer, Giuseppe Cerboni, went a step farther, building up a concept of rights and duties which he related to credit and debit.* No doubt the practice of personification sprang quite naturally from the fact that the earliest accounts were probably concerned only with real debtors and creditors, while the idea of charge and discharge arises fairly directly from agency accounting.

The Theory of Transactions

The practice of personification is sometimes associated with a theory relating to the nature of

* See Peragallo—*Origin and Evolution of Double-Entry Book-keeping.*

transactions. Every transaction must have a two-fold aspect because a transaction involves two parties; there must be a receiver of value and a giver of value. The recognition of this duality, we are told, lies at the heart of the double-entry system. It is probably this emphasis on the splitting of transactions into two parts which English students would recognise if they were asked to "explain" double-entry. The two-fold aspect exists, and, therefore, a complete system must record it.

But from this point there is a slight but extremely important shift of emphasis. From thinking in terms of receiver and giver, which is, so to speak, an objective attitude, rather than the viewpoint of one particular person or business, we turn to look at transactions from one end and here again we profess to see this duality. Instead of a receiver and a giver we think of a receiving *aspect* and a giving *aspect*. We now concern ourselves with the movement of values from the point of view of the business, thus shifting the emphasis away from the relationships of persons.

Value is passed across from credit to debit: the debit side is the receiving side of the ledger and the credit side is the giving side; the accounts classify values coming in and values going out. Everything goes very smoothly while we exemplify this by reference to the purchase of goods for cash, or the receipt of cash in settlement of debts. In both cases one "asset" goes out and another comes in. We can also exemplify the theory quite nicely when the incoming value is in the form of a service, such as the right to use premises or to receive a day's labour. We have to explain that the account headings, Rent and Wages, are a little misleading; we make it clear to the puzzled student that although we debit these accounts we are receiving not rent and wages, but the right of occupancy and of labour. In the case of a debit balance on discounts we explain that though the receiving aspect is debited and the balance on this account is a debit, it does not imply an excess of discounts received. The receipt consists in the service of speedy payment which was granted to the business by the debtor. By straining language a bit we can fit most business transactions into the scheme, though personally I should have some difficulty in explaining a credit to a personal account and a debit to bad debts on these lines. I am perhaps open to the retort that no one but a fool would try to; but the reply is inadequate, since one should be able to explain every entry by reference to a fundamental principle, if such a principle exists. We get over the difficulty by using the blessed words "adjusting entries," but it is not quite satisfactory.

If double-entry is applied to a charitable trust, it is true that one can say that paying out of the cash to the various charities is a passing across of value; one can describe the debit to the account for the particular charity as the receiving aspect of the transaction and probably get away with it. But it does not quite fit; the ground has been shifted. We are no longer recording a giving aspect and a receiving aspect from the point of view of the organisation concerned, unless we describe the debits as receipts in the sense of releases from the obligations to dispose of the funds under the terms of the trust—or perhaps moral satisfaction is received by the trustees!

The splitting up of transactions is doubtless a useful dodge for getting students on the way, but it will not carry them to the end, and in particular it will not explain the closing entries which are necessary for the preparation of the profit and loss account.

(*To be continued*)

Omission to Deduct Tax

Where an annual payment is made out of profits and gains brought into charge, the payer is entitled to deduct tax from the gross amount of the sum payable under General Rule 19. Cases do occur, however, where a sum equivalent to the gross amount of the annual payment passes from the payer to the payee. In such a case it may happen, on the one hand, that the payer has omitted to make the necessary deduction, or, on the other, that the payer may have made a genuine mistake, and may have been under the belief that the amount paid was the net sum payable by him after deduction of tax. The position, again, may be complicated by the fact that the Revenue itself, notwithstanding inspection of the deed or other document and of the certificates of deduction, may themselves have made a mistake in the past, and accordingly granted the payee refund of the tax for past years.

In such circumstances important practical questions arise as to the position of the payer and payee *inter se*, on the one hand, and as to the position of the payee and the Revenue on the other.

Let us deal in the first place with the position as between payer and payee. It has been settled by the decision in *Re Hatch* (1919, 1 Ch. 351) that where a payer makes payment of the *gross* sum to the payee without deducting tax therefrom, which he is entitled to deduct, the excess payment represented by the amount of tax deductible constitutes a payment made under a mistake of law, which the payer is subsequently precluded from recovering from the payee. Moreover, the payer may not in such a case make

the deduction out of future payments (*Galashiels Provident Building Society* v. *Newlands* (1893, 20 R., Court of Session, 821)).

The above observations, however, are subject to this important qualification, that in the case of weekly, monthly, quarterly or other periodic payments of less than a year, the payer is not bound to make the deduction from each such periodical payment, and he may postpone the deduction for the whole of the year until the end of the year. Thus in *Taylor* v. *Taylor* (27 R. and I.T. 55), it was held by the Court of Appeal that the right to deduct tax might be exercised in relation to payments falling within a particular year, at any time when the payments to be made in that year have not yet been fully made.

But once the last opportunity of making the deduction for the particular year has passed, then failure to deduct the tax must, it seems, necessarily result in the payer having made a gift of that tax to the payee, since the amount of the permitted deduction cannot subsequently be recovered by any means at all.

Let us now examine the position as between the Revenue and the payee. We will assume for this purpose that the Revenue has not kept a watchful eye in the past, and that it has allowed refunds to the payer in respect of tax which seemingly has not been deducted at all. It is necessary to consider the state of mind of the payer when making the payment. If the payer was under the impression that the sum he was paying over was the net sum payable by him after deduction of tax, when in fact it was the gross sum payable by him, then obviously when he was making the payment he was purporting to deduct tax, though the deduction would be erroneously made by him in respect of a greater sum than the gross sum payable. On the principle, therefore, that the greater must include the less, the payer must at any rate be regarded, as far as the position between the Revenue and the payee is concerned, as having deducted tax in respect of the gross amount payable by him ; and accordingly the payee would be entitled to contend that tax had been deducted in respect of the gross sum actually payable, and he would therefore be entitled to the refund of the tax by the Revenue.

On the other hand, if the payer did in fact omit to make the deduction of tax, and was not merely purporting to make a deduction in respect of a greater amount than the actual gross amount, the payee might possibly be in not quite as good a position. But in any event, in either of these cases, if the Revenue, after a consideration of the deeds and certificates, had made an error in allowing the payee a refund of tax for past years, it might successfully be contended as against the Revenue that the ascertainment by the Revenue subsequently of the error it had made did not amount to " discovery " within Section 125 (1) of the Income Tax Act, 1918, so as to entitle the Revenue to demand a return from the payee of the amount erroneously refunded in the past by the Revenue.

Each case, of course, must depend on its own particular facts and circumstances, to which the principles as to " discovery " would have to be applied. What, then, constitutes " discovery " ? Unfortunately the law on this important question is by no means clear-cut, and the decisions are somewhat conflicting. It may be sufficient for the present purpose, however, to refer to some of the most recent authorities.

In *Anderton & Halstead, Ltd.* v. *Birrell* (1932, 1 K.B. 271) the appellants had been assessed on the basis of a writing down in two years successively of a doubtful debt. This was done by agreement with the Inspector, who *had all the facts before him.* Subsequently, by additional first assessments, the writing-down was disallowed on the ground that, since the writing-down, the appellants had permitted the debtors to increase their indebtedness. It was held, however, that the ascertainment by the Inspector of this subsequent increase of indebtedness did not constitute discovery. In his judgment (at p. 281) Mr. Justice Rowlatt said : " The word ' discover ' does not include a mere change of opinion on the same facts and figures upon the same question of accountancy being a question of opinion. The meaning of the word was considered in *Rex* v. *Kensington Income Tax Commissioners* (1913, 3 K.B. 870, 6 T.C. 279), where it was held that it did not mean ' ascertained by legal evidence.' But the mere fact of such a discussion of the means of ascertainment indicates an assumption that there was something to be ascertained somehow. How greatly it would have simplified the problem if it could have been said that the inspector makes a ' discovery ' if he merely changes his opinion without any new information at all ! Moreover, it is to be remembered that income tax is an annual tax for the service of the year, and when one finds a provision for an assessment within a period of six years one is led to expect machinery, not for a mere revision, but for the bringing in of something which had been overlooked."

The next case is *Williams* v. *Grundy's Trustees* (1934, 1 K.B. 524). There trustees stated in error that by reason of the provisions of the will, which they misread, the income was not liable to income tax, and after production of the will and full discussion with them the Inspector of Taxes agreed, and no assessment was made. His successor, however, discovered the error and additional assessments were made. It was held that the Inspector (who was treated as if he were the first Inspector) had discovered within Section 125 (1) that profits chargeable to tax had been omitted from the first assessments, and that, consequently, additional assessments could be made.

It is to be observed that in this case there was held to be discovery, although the facts were known to and were examined by the Inspector at the time. The decision, therefore, goes contrary to the general trend of the authorities which indicate that discovery does not include a mere change of opinion on the same facts, but connotes a subsequent discovery by the Inspector of a fact which existed at the time, but was then unknown to the Inspector. And, indeed, the decision in *Williams* v. *Grundy's Trustees* was severely criticised by the Court of Appeal in *British Sugar Manufacturers, Ltd.* v. *Harris* (1938, 1 K.B. 220), though their criticisms are strictly in the nature of *obiter dicta*. The opinion was there expressed that where an assessment has been made with full knowledge of the facts, and a certain deduction has been allowed, the mere fact that the Inspector subsequently changes his opinion as to the deduction having been properly allowed is not a ground for making an additional assessment, and the observations of Lord Justice Romer, in particular, clearly indicate what would have been the decision of the Court of Appeal on the second point as to discovery if such a decision was necessary for the purpose of the appeal.

As far as the English Courts are concerned, therefore, the decision in *Williams* v. *Grundy's Trustees* cannot be regarded as good law. As regards Scotland, no doubt the decision in *Inland Revenue* v. *McKinley* (1938, Court of Session 765) may prove to be equally troublesome.

In the latter case a partnership deed provided that in the event of a partner's death the price to be paid for his share should include a sum in lieu of profits for the period between the date of the last balance sheet and the date of his death. On the death of one of the partners the trustees included as income an item calculated in accordance with the provisions of the deed. The assessing Commissioners, however, with full knowledge of the facts, excluded this item as being in their view a capital payment. Subsequently an additional assessment was made in respect of this item, as representing the deceased's share of profits for the portion of the trading year down to the date of his death.

It was held that the additional assessment was competent, and the opinion was expressed that Section 125 (1) of the Income Tax Act, 1918, covered the discovery of an error in law as well as the discovery of an error in fact. We submit, nevertheless, that this decision conflicts with the English authorities on the point, and cannot be regarded as good law, at any rate as far as the English Courts are concerned.

In conclusion, it may be pointed out that in a large number of cases where there may have been an omission to deduct tax from an annual payment, all the facts may have been known by the Inspector, who accordingly may have made an error in law; and under such circumstances, it is submitted, the Revenue could not be entitled to a return from the payer of the tax refunded to him on the basis that tax had been deducted from the source, because the subsequent discovery of any such error would not amount to "discovery" within Section 125 (1) of the Income Tax Act, 1918.

NATIONAL SERVICE

Early in August the Minister of Labour was asked in the House of Commons whether he would give the number of persons who have enrolled in each of the main categories of the central register of persons with scientific, technical, professional, and higher administrative qualifications; whether these numbers are regarded as adequate, and the extent to which the register is being used in peace-time.

Mr. Ernest Brown, in reply, circulated the following statement in the official report:

The number of volunteers enrolled in the main categories of the Central Register on July 22 were as follows:

Scientific Research	6,456
Industrial Chemistry	4,743
General Engineering	20,907
Mining and Metallurgy	1,972
Accountancy	14,341
Architectural and Public Utilities ...	17,075
Universities and Teaching	4,617
Administration and Management ...	6,297
Linguists	1,299
Others	2,619
Total	80,326

The response has, in the main, been satisfactory, but some employers in certain of the more important categories have been reluctant to allow qualified members of their staff to volunteer. It is thought that this may be due to a misconception of the use to which the Register would be put in war-time. Machinery will then exist to determine priorities of national importance between different classes of work, and before volunteers already in employment are submitted for alternative posts, the observations of their employers will be carefully considered by expert Committees appointed for the purpose. It is, therefore, hoped that in the national interest employers will encourage their qualified staffs to enrol on the Register so that it may be equal to the calls made upon it in the event of war. It is to be remembered also that the Register will be available in war-time for the use of employers as well as of Government Departments, and that in certain circumstances they may find it of great use for securing replacements of staff.

As the Register is intended as a pool from which to draw qualified persons in war-time, volunteers should not expect to be allocated to specific posts in advance of an emergency, although it is proving possible to do this in a comparatively small number of cases.

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ECONOMIC PREPAREDNESS

If the British nation has to fight, it will fight on three fronts—the military, the industrial and the financial. For a long time it has been realised that the structure of our industry and finance takes as high a place on the agenda of preparedness as our military dispositions; the lesson that modern warfare is largely economic warfare has for long been taken to heart. Our economic system is in readiness to take the strain which may be imposed on it, just as our defence forces are in readiness to resist the aggressor. In the past week rapid moves have been made in perfecting this economic preparedness. The authorities now possess powers to transform our industry into a vast engine of war; our financial resources have already been mobilised and deployed. If the signal—which all fervently hope never to see—is given, the transition of British economy on to a war basis can be effected smoothly and rapidly.

The passing of the Emergency Powers Act and the issue of a long list of regulations under the Act in effect vest the Government with authority to take over property and to control and regulate industry in Great Britain as they deem necessary for the more effective prosecution of war. With the powers already given to the Minister of Supply, this means that industrialists may be required by law to use their factories for the production of war materials, ammunitions or other essential supplies, or to hand over property and land to the State as the higher authorities may direct. It makes it possible for the industrial front to be adapted in accordance with the dictates of war exigencies. It adumbrates an industrial system directed from above with the motive of war-efficiency predominating over that of individual initiative. In effect, it presupposes a large step being taken towards a planned economy.

In ordinary times there would be no passive acceptance of such far-reaching powers with all their revolutionary implications. But in present circumstances there will be few who will deny the necessity of these measures. So far, it is true, the country's enormous effort in the "near-war" period has been made—and made successfully—in conditions where private industry has proceeded on its own initiative, with the profit motive still acting as the mainspring of enterprise. But even the large-scale rearmament which we have already put in hand presented us with problems simpler by far than those with which we may now be confronted. To date, we have been able to obtain raw materials in quantities limited only by considerations of price and the normal elasticity of supply; we may now face a situation where the available quantities are, to say the least, rigidly limited. Until the present time, there has been a surplus of labour; we may now find ourselves suddenly faced with the "full employment" which for some time we have been regarding as only a future probability. The rearmament programme has entailed some falling-off of activity in non-armament industry as a whole, but the incidence of war would mean a complete swing-over of the balance of production to the arms industries. It is not possible to envisage these large-scale problems being tackled expeditiously without an acceptance of planning from above. Nevertheless, in refraining from any pre-war requisitioning in industry, the Government have committed no error. The final carrying into effect of what must be regarded as essentially emergency plans for industry has been rightly deferred until the necessity becomes inevitable.

We have detailed on other pages of this issue the steps which have recently been taken in the financial sphere. It is in this sphere that the accountant is more particularly concerned. In brief, he may be said to have two duties to the community in war-time. In the first place, upon the accountant will rest a considerable part of the burden of ensuring the flow of Government resources from taxation. In the second place, he will be largely responsible for the economical and discriminate expenditure of funds, both private and public. It is no exaggeration to affirm that these twin elements of finance lie at the basis of a successful war economy. If hostilities occur there will undoubtedly be additional taxation and probably new taxation also. Anyone possessing experience of the Great War will not need to be reminded how vitally necessary would be the professional accountant's co-operation in the functioning of the taxation machine. Nor will there be any cause to stress the imperativeness of the exact calculation of profit and loss in war-time, and the essential need for adequate and accurate accounting records. War makes the conservation of financial resources more, not less, important: the function of the accountant in assessing the balance of gain among alternative allocations of funds is raised to the highest level of significance.

TAXATION

Residence and Domicil of Corporations

In the Report of Lord Macmillan's Income Tax Codification Committee, it was said with reference to the domicil of companies : " An investigation of the subject revealed that it was one which, even at the present day, remains practically unexplored and which throws up problems upon which no direct statutory or judicial authority exists." It must also be admitted that, though every text-book on taxation attempts, at least to some extent, to explain the terms " residence " and " ordinary residence," further exploration in these realms is timely.

It is therefore fit that accountants should give a proper welcome to the work under the above title, written by Mr. A. Farnsworth. * In a foreword, Lord Macmillan says that Mr. Farnsworth " has ventured into a territory . . . of which previous explorers have given singularly confused and conflicting accounts. . . . The application to corporations, which are artificial persons, of conceptions which are primarily applicable to natural persons is beset with the perils which attend the use of analogies in law, and Mr. Farnsworth, who does not hesitate to break a lance with eminent authorities, . . . is able to show that not infrequently they have fallen into error . . . no one in future who has to deal with the problems discussed . . . will be properly equipped for his task unless he has studied this admirable monograph."

The author deals with residence and domicil not only in connection with income tax, but also as regards jurisdiction, and as affecting bankruptcy and under other statutes. American and Continental law on the matter is also discussed.

In this article we propose to examine the taxation aspect alone. Analysis of the position shows that, whereas the legal results consequent upon residence are wholly the creatures of statute, the terms " resident " and " residence " have never been defined in any statutory enactment ; the Courts interpret the words in their ordinary sense, and have laid down that " residence " is purely a question of fact—that is, one of degree and not of law—though the word must be used with its correct legal connotation.

The purpose of a man's visits to this country is irrelevant in considering whether or not he is " resident " ; he may make his home elsewhere and stay in this country only because business compels him, yet if the periods for which and the conditions under which he stays are such that they might be regarded as constituting residence, it is open to the Commissioners to find that in fact he does so reside. A person who has a permanent establishment or abode here to which he can resort is " resident " in this country if he is here at all in the year of charge (*Cooper* v. *Cadwalader*, 5 Tax Cases 101), but a person can still be regarded as resident here even without a fixed place of abode, *e.g.*, a person who lives in hotels or the houses of friends, provided this existence is in the regular course of his life (*Levene* v. *C.I.R.*, 1928, A.C. 217). A person with a permanent home abroad who visits this country habitually without any fixed abode here can still be regarded as resident (*Lysaght* v. *C.I.R.*, 1928, A.C. 234). A person can thus be resident in more than one country in the same year provided he is actually physically present therein for some of the time.

" Ordinary residence " has a narrower meaning than the term " residence." In spite of differences of opinion expressed by eminent judges, it appears that " ordinarily resident " means " according to the way a man's life is lived." The true converse of " ordinarily resident " seems to be " occasionally resident " and residence which is habitual and part of the regular order of a man's life is " ordinary." Preponderance in point of time or even of time plus importance is not a vital element of the nature of " ordinary residence " ; it is equally important to consider the regular course of the subject's life.

The legal idea of residence has developed from that of a home to that of a quality of the person, and probably in considering whether a person is " ordinarily resident " over an indefinite and lengthy period of time, physical presence in a country may not be necessary for any particular year, if the absence is an exception to, or a temporary break in, the subject's ordinary mode of life, although Lord Cave, L.C., in the *Levene* case, said : " I find it difficult to imagine a case where a man while not resident here is ordinarily resident here " (1928, A.C. at p. 228).

Domicil was introduced into income-tax matters in 1914, and, as readers will remember, affects the basis of assessment under Cases IV and V of Schedule D only. Domicil is the country which is considered by English law to be the permanent home of the person in question, and he can only have one domicil at a time. At birth a person acquires a domicil of origin, which in the case of a legitimate child is that of the father ; if illegitimate, that of the mother. The domicil of origin is lost if a domicil of choice is acquired, but proof of the loss and the acquisition is extremely difficult. In order to acquire a domicil of choice there must exist both the fact of physical presence or residence in the new country and an intention to remain there indefinitely, and the courts will review the life history of the party before they

* *The Residence and Domicil of Corporations.* By A. Farnsworth, Ph.D., LL.M. (Butterworth & Co., Ltd., London. Price 21s. net.)

will decide that he has abandoned his domicil of origin.

In applying the quality of residence to that artificial personality, a corporation, the English courts appear to have taken the view that the criteria determining the quality must necessarily differ from those applicable to an individual, and, like their subject, must also be artificial to some extent. The effect of the long series of decisions culminating in *Egyptian Delta Land and Investment Company* v. *Todd* (1929, A.C. 1) is to define the place of residence of a corporation (in these cases a trading company) as the place where the directing and controlling power is exercised or, perhaps better, " where the central control and management actually abides." This control is exercised by the directors and not by the corporators at meetings of the corporation. The place of incorporation or registration is only evidentiary and not conclusive, while control may be divided so that a corporation, just as an individual, may in a legal sense be resident simultaneously in two countries. The problem is one of fact. It appears from *John Hood & Co.* v. *Magee* (7 Tax Cases 327) that the deciding factor is not where the directors reside, but where they meet to exercise their functions and control the company.

Mr. Farnsworth devotes considerable space to a reconciliation of the decision in the *Egyptian Delta* case with that in *Swedish Central Railway Company* v. *Thompson* (1925, A.C. 495), and appears to come to the conclusion that the House of Lords ventured into the realms of the Commissioners and decided a question of fact, as it was the judges who found that the control was equally divided between this country and Sweden ; the business done in the two countries (purely administrative in each case) seems to have been regarded as of equal importance and real enough to indicate that control was equally divided, with the result that the company was held to be resident here as well as in Sweden.

As regards " ordinary residence " it seems reasonable to suppose in the case of corporations that this follows " residence," and in the case of divided control, as in the *Swedish Railway* case, the company would be ordinarily resident at its registered office. This may be of importance for National Defence Contribution.

Except in one case in connection with death duties, the question of the domicil of a corporation has never been directly before the English courts, but from a consideration of dicta and general principles, the author concludes that a corporation has a domicil, namely, the country to whose laws it owes its being—that is, by which it is incorporated. A corporation cannot have two domicils, any more than can an individual, and therefore domicil cannot follow residence ; a domicil of choice, though theoretically possible, is subject to the insuperable objection that, if such a domicil could be obtained, this would give a corporation a status different from that which it possesses in actual law, since it must be governed by the laws of the country of its incorporation.

As to whether a foreign corporation is trading *with* this country (which does not attract British taxation) or carrying on a trade *within* the United Kingdom is again a question of fact. Wherever profitable contracts are habitually made in England, by or for foreigners, with persons in England because they are in England, to do something for or to supply something to these persons, such foreigners are exercising a profitable trade in England even though everything to be done by them in order to fulfil the contracts is done abroad (*Erichsen* v. *Last*, 1881, 8 Q.B.D. 414). If the contracts are made or the services rendered here, liability to tax attaches. The element of continuity is essential—the non-resident must habitually sell goods or render services for profit in this country under contracts made here.

It is, of course, possible for a trade to be carried on here by a foreign corporation even though contracts are made abroad, as when a manufactory or branch office is opened here, but where all that the agents in this country do is to solicit, receive and transmit orders to their foreign principals, the trade is not carried on here (*Grainger* v. *Gough*, 1896, A.C. 325).

The above is an indication of the value of this work in the sphere of taxation (which is only one aspect with which it deals), but the bald statements do not do justice to the author, who traces the history of the subject and analyses and compares the judicial decisions, etc., with expert facility.

Seldom have we enjoyed reading a new work as much as this, and it is many years since we laid one down knowing that our stock of knowledge had been so much replenished. We recommend our readers to study the book, knowing that they cannot but profit thereby.

TAXATION NOTES

Armament Profits Duty

The clauses originally proposed to be added to the Finance Bill in respect of the new Armament Profits Duty were amended in comparatively few respects during their progress through Parliament.

Considerable discussion took place as to the scope of the tax, and as a result amendments were made to include the following in the term " armament contract " :

(*a*) expenditure for the purpose of any enactment relating to civil defence ;

(*b*) contracts for the supply of anything required by the Crown under the Essential Commodities Reserves Act, 1938 (this brings in purchases of food as a reserve) provided similar supplies are also being acquired by the defence forces under direct contract ; and

(*c*) contracts for the supply of anything which is being acquired by the Crown as being something which would be essential for the needs of the community in the event of war.

The fear was expressed that circumstances might arise in which a person who acted as a Government agent in the erection of a shadow factory would be in receipt of the price paid for it, though only acting as agent, and words were added to ensure that in such a case only remuneration paid in respect of the agency could be taxed.

It was felt that the power given to the Minister of Supply to exempt certain articles and materials was rather too wide without Parliamentary control, and an amendment was made requiring any order so made to be laid upon the Table of the House with a proper explanation, and be subject to the ordinary negative rule, which will enable a Prayer to be made against the order. The House of Commons could thus annul any order which they felt to be going too far.

The term " articles and materials " includes water, gas, electricity, and hydraulic power, in respect of which an order has been made for their exemption.

Although the Chancellor of the Exchequer said that he thought enterprises that have been paid £200,000 a year for armament contracts would not usually be found to be partnerships, and that the point would not arise in practice, he accepted an amendment of the succession and amalgamation clause to permit partners to elect that on a change consisting of the death or retirement of a partner, or the taking in of a new partner, the business shall not be deemed to have been discontinued, and a new one started. In the event of such a happening, this might prove a very valuable concession, as it will enable the profits of the standard period to be continued as the standard profits, whereas the standard profits of a new business would be on a " percentage of capital " basis. If the working capital is small, this might make a substantial difference.

The provisions of the Act as to A.P.D. apply only from April 1, 1939, unless there are express provisions in respect of earlier periods. Where a change in ownership of a business occurred prior to that date, the ordinary Income Tax Rules apply, with the result that the business will normally be regarded as discontinued and new. Where there has been a transfer from one company to another, e.g., on a reconstruction, this might operate very harshly by the substitution of standard profits based on capital for those of a standard period. An amendment was therefore inserted that where a business was carried on before July 1, 1936, and it, or the main part of it, was then transferred before April 1, 1939, to another person, the Commissioners, if satisfied that the business carried on after the transfer is substantially the same as that carried on before, may, on the application of the new owner, treat the business as continuous for the purpose of standard profits, subject to such modifications as may be just. If the Commissioners refuse the application, or if the applicant is dissatisfied with any modifications, he can appeal to the Board of Referees.

Investment Companies with Estate or Trading Income—Finance Act, 1939, Section 14.

Readers should note that in the case of investment companies to which section 21 of the Finance Act, 1922, applies, an excess of the cost of maintenance, repairs, etc., incurred by the company in the year of assessment over the gross estate or trading income can be set off against other income of the company, provided notice is given to the Special Commissioners within six months of the end of the year of assessment. Any such notice for the purposes of sur-tax for 1938-39 must, therefore, be given in writing to the Special Commissioners, Hanway House, 27-31, Red Lion Square, London, W.C.1, not later than October 5, 1939. There is no prescribed form of notice.

Recent Tax Cases

By F. HEYWORTH TALBOT and R. A. FURTADO, Barristers-at-Law

Schedule D—Instalments based on traffic receipts paid by railway company to traders for purchase of siding—Capital receipts.

In *Legge* v. *Flettons, Ltd.* (May 12, 1939, Tax Leaflet 1017) a railway company, acting under an agreement with the respondents, had constructed a siding for them. On payment by the respondents of the cost of construction, the siding became their property. The agreement provided, by clause 3, that in each year in which the gross receipts for railway traffic to and from the respondents' works exceeded £15,000, the railway company should pay the respondents 5 per cent. of the railway company's proportion of such receipts. Such payments were to cease when they equalled in the aggregate the actual cost of the sidings, which thereupon were to become the property of the railway company. The agreement was terminable on 12 months' notice, and on termination the railway company could take up the sidings at the respondents' expense, paying to the respondents the excess of the proceeds of sale of the materials over the aggregate of the payments then made under clause 3. The question in issue in the case was whether a payment made to the respondents under clause 3 should be included in the assessment made on the respondents in respect of

the profits of their trade. The Commissioners found that the payments were capital receipts, not to be included in the assessable profits, and the Court upheld their decision. The Judge decided, on the construction of the agreement, that the payments were in substance made for the purchase by the railway company of the respondents' siding, and accordingly they were capital receipts. The fact that a payment is calculated on an income basis does not necessarily make it a revenue receipt if, on examination of the substance of the transaction, it is of a capital nature. The decision follows *C.I.R.* v. *Ramsay* (20 T.C. 79), where a dental practice was purchased for £15,000, to be satisfied by an immediate payment of £5,000 and ten yearly payments of a sum equal to 25 per cent. of the profits of the practice, and it was held that such yearly payments were instalments of capital. The present case differs from *Ramsay's* case, in that here there was no previously fixed antecedent debt. It was held, however, in *C.I.R.* v. *Ledgard and Pyman* (21 T.C. 129), where a deceased partner's share in a firm was purchased at a price varying with the profits, that if the substance of the transaction is a sale at a price payable by fluctuating instalments, the absence of a fixed pre-ascertained sum does not make the instalments revenue receipts. The case of *Legge* v. *Flettons, Ltd.*, may be compared with *Westcombe* v. *Hadnock Quarries Ltd.* (16 T.C. 137), where the facts were similar, except that the agreements contained no provision whereby the sidings were to become the property of the railway company. The payments there made by the railway company were held to be revenue receipts, being in substance rebates on freights.

Surtax—Settlement containing discretionary trust in favour of settlor and his children—Whether "irrevocable" within Finance Act, 1936, Section 21.

In *C.I.R.* v. *Lord Delamare* (June 9, 1939. Tax Leaflet 1024), a number of points were decided on the interpretation of Section 21 of the Finance Act, 1936, dealing with children's settlements. In 1932, the respondent conveyed property to trustees upon trust, during his life, to pay the income at their absolute discretion to or for certain persons, including himself, his wife, and his children. The deed contained no power of revocation. During 1936-37 the trustees made payments of sums, amounting to about £500 after deduction of tax, to each of the respondent's three infant children. An assessment to surtax was made on the respondent in an amount which included these sums, which the Crown contended were to be treated as his income by virtue of Section 21. The respondent resisted the assessment upon several grounds, as follows. He contended, (a) that the section did not apply to the settlement, since it does not apply to settlements made before April 22, 1936, which immediately before that date were irrevocable (sub-section 10). But by sub-section (8), a settlement shall not be deemed irrevocable if the terms thereof provide for the payment to the settlor of any income in any circumstances whatsoever during the life of any child of the settlor. The respondent contended that this special definition of "irrevocable" had no application to the word as used in (10), and accordingly the settlement was irrevocable within the meaning of sub-section (10). The Court held, however, that the word "irrevocable" in (10) must be construed in the light of sub-section (8), and that the section did apply to the settlement. This endorses the opinion expressed by the Scottish Court in *C.I.R.* v. *Warden* (1938), Tax Leaflet 986. The respondent also contended, (b) that the settlement did not "provide for the payment" to him of income "during the life of any child," since it merely conferred a discretion on the trustees to make him payments, which discretion was not limited to the life of any child. The Court, rejecting this contention, held that a settlement containing a discretionary trust, with the settlor as a possible beneficiary, does provide for payment to the settlor "in any circumstances whatsoever," within sub-section (8), since the exercise by the trusteees of their discretion is a circumstance within the contemplation of the section. It was further held that sub-section (8) does not require the provision for payments to the settlor to be limited to the life of any child: it is enough that such payments may be made during the life of any child. Lastly it was contended (c) that such of the payments as were made before July 16, 1936, when the Finance Act was passed, were not affected by the section. The Court, however, held that the "year of assessment" referred to in sub-section (1), is a year commencing on April 6, and not on any other date.

The decision on the meaning of sub-section (8) will be important in connection with sub-section (2), and is of interest in considering the similar wording of Section 38 (4) of the Finance Act, 1938.

Schedule B, Rule 8—Gardens for the sale of produce—Question of fact.

The case of *Williams* v. *Rowe* (May 23, 1939; Tax Leaflet 1023), like that of *Bomford* v. *Osborne*, which is noted below, is a further case on the application of Rule 8 of Schedule B, which provides that the profits arising from lands occupied as nurseries or gardens for the sale of produce shall be estimated according to the rules of Schedule D. It will be remembered that in *Kerr* v. *Davies*, noted in the August number of ACCOUNTANCY (page 421), it was decided that the question whether land is occupied as a garden is a question of fact, and the Court refused to disturb the Commissioners' finding that the land in question was not a garden, there being evidence upon which they might come to that conclusion. In *Williams* v. *Rowe*, the respondent occupied lands

consisting of open fields not forming one compact holding, from which he derived a profit far exceeding the annual value. A great part of the lands he hired for a season, commencing in the autumn, the lessors preparing and working the land up to the point of germination of the seed. The respondent provided and sowed the seed, and cultivated and harvested the crops, which consisted of carrots, parsnips, potatoes, turnips, peas, beans and beet. When the crop was lifted, his interest in the lands ceased. The cost of labour was high in comparison with the cost of ordinary farming in the district. The remainder of the land he rented under ordinary tenancy agreements, while he owned a few acres, on which he produced fruit, lettuce, beet and beans. The produce was packed by the respondent and sent for sale in large towns. He grew no cereals, kept no livestock, and had no glasshouses, but he owned his own ploughs and tractors.

The Commissioners found that the respondent was carrying on a farming business, and was not occupying the land as a market garden, and was therefore not assessable according to Rule 8 of Schedule B. The Court, dismissing the Crown's appeal, held that there was evidence upon which the Commissioners might arrive at that conclusion, and confirmed their decision. In this case, as in *Kerr* v. *Davies*, the Judge appears to have attached weight to the fact that the crops were grown according to the farming practice usual in the neighbourhood.

Schedule B, Rule 8—*Lands occupied partly for husbandry and partly as gardens for sale of produce—Basis of assessment.*

In *Bomford* v. *Osborne* (May 26, 1939 ; Tax Leaflet 1022) a further point arose. The appellant occupied 553 acres, which he worked as a mixed farm in one unit. The 229 acres of arable land were used for growing vegetables and fruit for sale, and (on 16 acres) wheat. There were no glasshouses, and the vegetable and fruit produce was sold through agents in certain towns. The remaining land was used for mowing grass, grazing and osiers, the appellant keeping horses for farm work, and cattle, sheep, pigs and poultry for fattening and sale. The regular employees were engaged indiscriminately over the whole farm. Assessments were made under Rule 8 in respect of the profits from the 229 acres of arable land (including the 16 acres used for growing wheat) and, as to the remaining land, on the assessable value. The Commissioners decided that the arable land was occupied as a garden, that the ordinary farming operations thereon were merely ancillary to the market garden operations, and that the whole farm, though worked as one unit, might legitimately be divided for the purpose of assessment. On appeal, Lawrence, J., held that although the lands were held and worked as one unit, one part might be assessed as a garden, and the other part as a farm. In making this decision, the Judge followed reluctantly the decision of the Scottish Court in *David Lowe and Sons* v. *C.I.R.* (21 T.C., 597). The Judge pointed out that this decision may involve that every farmer who grows a field of potatoes for sale may be assessed thereon as a garden. The result of this would be curious in the case of a mixed farm, since the question whether land is occupied as a garden is determined by the nature of the occupation in the year of assessment ; if this test shows it to be a garden, the profits are estimated under Rule 8 according to the profits of the preceding year, when it might be that no garden produce was grown on that piece of land. The Judge accordingly decided that there was evidence to justify the Commissioners in finding that the arable land was occupied as a garden, except as to the 16 acres used for ordinary farming, which could not be treated as ancillary to the garden any more than could the land used for feeding stock. It is hoped that the case will proceed to the Court of Appeal for a further discussion of the important principles involved.

INDIAN COMPANIES ACT

There was published in the last issue of ACCOUNTANCY a query from a reader asking whether under the Indian Companies Act it was necessary for notice to be given to the first retiring auditors appointed by the directors of a company if the shareholders proposed at the first general meeting the appointment of a new auditor. We have received the following reply from Mr. A. Sivasubramanian :—

" Sub-sections 6 and 7 of Section 144 of the Indian Companies Act should be read together. The Act requires notice to be given to the retiring auditors. No distinction is made between the auditors appointed by the directors and the general body. As such, it seems to be perfectly clear that notice to the retiring auditors is essential, and cannot be dispensed with. Of course, notice of the nomination of the new auditors should also have been given by the intending shareholder, within the prescribed time."

RECENT LEGAL CASES

The following recent legal cases are dealt with in this issue :—

The Accountant and the Community

Paper delivered by Mr. W. Norman Bubb, F.S.A.A. (Member of the Council of the Society of Incorporated Accountants) on Thursday, July 20, 1939, at the Nottingham Conference.

The Growth of Company Law

This paper is one of a series of two. This morning I shall be dealing with the subject " The Accountant and the Community " and to-morrow Mr. Fox will speak on " The Accountant and the Individual." These two subjects are closely interlocked and it may be difficult in certain aspects entirely to separate them, but I will do my best not to trespass upon Mr. Fox's preserves more than I can help.

The nature of the services rendered by the accountant and the duties and responsibilities devolving upon him as a corollary of such services have undergone great changes during the last hundred years, such changes being much more marked in the last half-century. Formerly, trading was for the most part carried on by individuals or small groups of persons in partnership. The accountant's responsibility, therefore, when consulted or called upon to prepare profit and loss accounts and balance sheets, was practically confined to the individuals concerned. Even in those days, however, the presence of bank overdrafts and loans often called for accounts, and balance sheets were, therefore, liable to be shown to third parties. As, however, trade continued to expand and larger aggregations of capital were required, joint-stock companies came into being. In 1844 an Act was passed for the registration of joint-stock companies but the liability of members thereof remained unlimited. In 1855 the privilege of limited liability, which hitherto had been considered as being against public policy, was granted to companies, whilst in 1862 previous legislation was repealed and re-enacted in a consolidated form in the Companies Act of 1862. New Acts followed as circumstances required until in 1908 the various Acts relating to companies were repealed and re-enacted, and subsequently there were three more Companies Acts which were cited with the principal Act as " The Companies Acts, 1908 to 1917." In the year 1925 a Government Committee was appointed to consider questions relating to the amendment of company law in order to bring legislation into line with post-war requirements, and the recommendations of that Committee were embodied in the Companies Act, 1928. In the following year the Companies Act, 1929, was passed, consolidating the Companies Acts, 1908 to 1928, and certain other enactments connected with those Acts, the Act of 1929 becoming effective on November 1 of that year and remaining the law on the subject to-day. The rapid growth of limited liability companies, both public and private, during the last fifty years has wrought innumerable and far-reaching changes, both from the point of view of the community and of the professional accountant himself, and it is for this reason that I propose to deal in some detail with this aspect first.

The Accountant and the Company

The accountant (termed " the auditor " in relation to companies) may be regarded as the " buffer " between the community and the board of directors. He is usually elected on the recommendation of the board, but he is not their servant but the servant of the shareholders and, as such, his responsibility is no sinecure. From the birth of the company to its demise it is the duty of the accountant to safeguard the interests of investors who are not in a position, individually, to decide whether or not an investment is a good one and so are forced to rely more and more upon published accounts and reports.

Dealing first with the birth of a company, in its prospectus one usually finds printed in a conspicuous place the name of a well-known firm of Chartered or Incorporated Accountants and the presence of this name on the prospectus is regarded by the community as a guarantee of good faith. In addition certain portions of the prospectus and statutory report have to be certified by the accountant or auditor.

During the lifetime of the company it is necessary for a report of the auditors to be presented to the members once in every year and at intervals of not more than fifteen months, stating that they have examined the balance sheet and that, having received all the information and explanations they have required, they are of opinion that such balance sheet is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of their information and the explanations given to them and as shown by the books of the company.

There are also provisions that the balance sheet must contain a summary of the authorised capital, the issued capital, the liabilities and the assets, with particulars showing the nature of the liabilities and assets, and how the values of the fixed assets have been arrived at.

The information required under this Act represents the statutory minimum that must be included in any balance sheet, but this minimum should not of necessity be also the maximum. Many companies give their shareholders much more information and, generally speaking, if a company has nothing to hide there is no reason why this should not be done. An auditor should recommend the giving of additional

information for the benefit of the shareholders and the investing public.

In particular there is the question of subsidiary, sub-subsidiary and associated companies. With the modern ramifications of the structure of public limited liability companies, it is rather surprising that the Companies Act, 1929, requires such a small amount of information to be given. In fact, particulars regarding the shareholdings, any outstanding balances, and a general statement of aggregate profits and losses and how such profits and losses have been treated in the accounts is all that has to be given, and this information need only refer to direct subsidiary companies. This is not helpful and the excellent example set by such a company as the Dunlop Rubber Co., Ltd., in sending its shareholders a consolidated balance sheet of all subsidiary and associated companies is to be recommended and it is to be hoped that this desirable practice may become more generally followed.

Let us consider the position which arises when the directors of a company desire the auditors to certify accounts in a certain form and they refuse to do so, and for this reason the directors seek a change of auditor. There are certain safeguards in this connection in that notice must be given to the retiring auditor and also to the shareholders when any change is contemplated. There is a further extension of this which, although not statutory, is professional etiquette, namely that when an auditor is nominated in the place of an existing auditor he should immediately get in touch with the latter in order to discover the reason for the change. A further safeguard for shareholders is the statutory right of the auditor to attend any general meeting of the company when the accounts are being discussed and to make any statement or explanation he may desire regarding such accounts. This enables the community, as represented by the shareholders, to come in contact with the auditors of the company, although it will be appreciated that there might be many questions asked which it would not be politic for the auditor to answer without reference to the board.

The Accountant and the Investor

In addition to the actual shareholders in any company there is that vast body of investors who are continually desirous of finding outlets for their surplus funds, and here the accountant has a very definite and important function to fulfil. Unless accounts as presented show the true position investors may be misled. Evidence regarding the existence of secret reserves (released in times of slump in order that dividends may be maintained) has already come before the Courts on at least one occasion. It is the accountant's duty towards the community to see that any such extraordinary credits are revealed, as otherwise the investing public may be induced to purchase shares at an artificially high figure, as it would appear from the accounts that profits are being maintained when, in fact, this is not the case. In an address given earlier this year to the Incorporated Accountants' District Society of Sheffield on "Disclosure in Published Accounts," the editor of the *Financial News* stated that the information given should serve a threefold purpose of the investor, enabling him, firstly, to test the adequacy of each deduction; secondly, to compare increases and decreases in expenditure with changes in the volume of business; thirdly, to test the efficiency of the management. This statement seems to me to sum up the ideal situation and it should gain the support of the influential and the well-informed investor.

Having dealt with the birth and life of a company, the time may come when the company is ill and it becomes necessary for a receiver to be appointed for the debenture holders. Here the accountant is called in to safeguard the interests of the community where it is apparent that the security is in jeopardy. He in effect collects the assets on behalf of the debenture holders and it is his duty to see that the proceeds thereof are properly applied.

There are other provisions which apply when a company is not doing too well or when the shareholders suspect that all is not well. Under Section 135 of the Companies Act provision is made for inspectors to be appointed by the Board of Trade and often reconstructions are effected on the recommendation of the accountant whose advice has been sought.

Finally, there may come the day when a company, finding itself unable to pay its debts, goes into liquidation and the accountant as a professional expert is called in to see that the assets are equitably divided between the interested parties.

In every phase of a company's life, therefore, it will be seen that the accountant protects the interests of the community and, as was mentioned earlier, acts as the "buffer" between the community and the board of directors. At the same time the profession has to be continually on its guard to see that burdens are not placed on its shoulders which it is no part of the duty of the accountant or auditor to bear. When shareholders are aggrieved they are apt sometimes to seek to cast the blame on the auditors, seemingly losing sight of the fact that the auditor is in no way responsible for the conduct of the business. As things are, I think we can justly claim that our profession has to accept responsibility more than is the case in any other profession. Moreover, it has not the protection or privilege enjoyed by some others. A solicitor, for example, is able to relieve himself of much responsibility by taking the opinion of counsel and so far as concerns the responsibility for such opinion it simply does not exist.

Friendly Societies

Closely allied with the accountant's relation to shareholders and the investing public is his position *vis-à-vis* friendly societies, where the Registrar recommends the appointment of a public auditor. Such societies are not so stringently protected by legislation as limited companies so far as the information that must be revealed is concerned, and therefore the provision of a panel of fully qualified accountants as public auditors provides a safeguard for the many small investors who have sunk their hard-earned savings in friendly societies and similar organisations. In his capacity as public auditor of these societies the accountant is perhaps of particular service to the community, because I am sure it will be agreed that the fees are more or less nominal in relation to the work involved. At the same time accountants are in this way assisting materially in various thrift movements regulated under the Friendly Societies Acts. The appointments of public auditors are made by the Treasury annually and maximum audit fees are fixed as a condition of appointment. From a circular letter issued to public auditors the following paragraphs are of interest and are quoted in confirmation of the views just expressed :—

> " Experience has shown that a large proportion of the annual returns of Friendly Societies audited by 'lay' auditors who possess no qualifications for audit work are unsatisfactory, and in many cases losses have been incurred in circumstances which could not have arisen had the most elementary precautions been taken by the auditors."
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> "The Friendly Society Movement has behind it a great tradition of public service, which has been fostered by a spirit of mutual helpfulness, and it is largely manned by voluntary workers who are inspired by the highest motives although they may sometimes be ill-equipped for the work they undertake. The ratio of management expenses is usually very low and audit fees are reckoned in shillings rather than guineas —a mistaken idea of economy, if one may judge by results, but difficult to eradicate."

In addition to the work referred to on such audits practically every member of the accountancy profession is from time to time called upon to perform audits on behalf of hospitals and other charitable organisations either in an honorary capacity or at very nominal fees and, whilst members of the profession are usually only too willing to be of assistance in such cases, there will be no disputing the fact that the work undertaken is done more in the interests of the community than of the accountant himself; at all events, from a commercial point of view.

Tax Avoidance—The Accountant's Position

There is another aspect of the accountant's relation to the community, and that is in reference to taxation. This subject will doubtless be fully dealt with by Mr. Fox so far as the individual is concerned, and therefore I will only deal with it briefly. The revenue of the country is indeed an all-important subject to-day, and if there is tax evasion on the part of some, other taxpayers must suffer. In normal circumstances the accountant will agree the income-tax liability of a company or an individual and, because he has a greater knowledge of the Income Tax Acts and because he appreciates the implications of those Acts, the finally agreed assessment is a correct one. Here again, therefore, the accountant acts as a " buffer," this time between the taxpayer and the revenue authorities, in order to see that tax is properly levied in accordance with the Income Tax Acts.

When income tax was at 1s. in the £ or less—as some of us recollect—there was little need for schemes to be devised in order to avoid taxation, but to-day we find income tax, sur-tax and National Defence Contribution at such high levels that ingenious methods are continually being thought out. The accountant is often consulted regarding such schemes and his position is a difficult one. He has a duty not only to his client but also to the State, but provided any scheme is legal he should give honest advice in connection therewith, always, however, warning his client of the tendency in recent Finance Acts of making legislation dealing with tax evasion retrospective. The Income Tax Acts and Finance Acts have to be strictly interpreted, and the question of equity does not arise. Therefore if a client has found a loophole in the Act he is entitled to benefit therefrom in the same way that he must suffer from the effects of some clause that is considered obviously unfair to him but is the law.

In the current issue of ACCOUNTANCY is published an instructive and interesting article on this subject—admittedly a somewhat contentious one. The article is from the pen of our Vice-President, Mr. Richard A. Witty. His personal view is that avoidance schemes are detrimental to the real interests and reputation of the accountancy profession. Whilst many will agree, there are others who do not take up quite the same position. They contend, and it has been so held, that a taxpayer is entitled so to arrange his affairs as to attract the least tax liability so long as in so doing he does nothing illegal. It will thus be seen that the accountant has indeed a difficult task to perform in much of his work, of which the foregoing is not the least.

Whilst I have been writing this Paper we have had A.P.D. added to the list of taxes. What to-morrow has in store one cannot say, but critics of A.P.D. have already cast envious but mistaken eyes on the work which will fall to the lot of the profession.

National Service

The recent register of accountants compiled for the use of the Government in case of national emergency shows another side of the accountant's relation to the community. It is often said that in time of war the man behind the lines is as important as the man in the trenches, and in modern warfare the non-military lines of defence certainly have a most important part to play. Such a time is one of astronomical figures of expenditure, and were it not for the work that professional accountants have to do in the preparation and checking of costing accounts and the like such figures might be still more astronomical. The professional accountant in a " key " position is a safeguard to the community of the proper spending of the revenue of the country. This fact was apparently recognised when the profession of accountants was included in the original list of reserved occupations. Although the profession has been removed from the subsequent list this does not in any way detract from the importance of the accountant or imply any change in the official view, and the register of accountants that is at present being analysed may well prove a vital link in national defence.

Unqualified Accountants and Advertising

Another aspect of the accountant's relation to the community not to be overlooked is the standard of the profession. Everyone practising a profession should have a certain standard of skill, the usual measure of such standard being the qualification obtained through professional examinations. Whilst it is still possible for an individual to practise as an accountant and auditor without any qualifications at all, the more reputable professional bodies demand a definitely high standard of skill, and those who have passed the examinations of these bodies and are entitled to call themselves by the particular designation attached thereto give the community a feeling of confidence when they are employed to act professionally.

The position of unqualified accountants is, therefore, one of some considerable concern, for while they often lack the skill they have numerous advantages that are not shared by members of the more reputable professional bodies. To take one example, they are allowed to advertise, and in this way can bring before the community the name of their firm and promises of what they profess to be able to do, in a way not permissible to the qualified professional accountant, while the fees quoted by " free lance " accountants are usually much lower than those of qualified accountants.

Whilst, quite rightly, any kind of advertising by an accountant is to be deprecated, one wonders at times whether the profession is not suffering in upholding its prestige in this respect. It is not suggested for one moment that individuals should be allowed to advertise, but it is a question whether the time has not come, and indeed is not already overdue, when the profession itself should give more publicity to the various services rendered by members of the profession to the community. I have in mind in particular the fact that for some time now the banks individually, not even collectively, have advertised the various services that they render to the community, and some of their clients who have entrusted their income tax and other matters to a bank have probably done so without thought of the accountant; in my view because the one has advertised the services he renders and the other has not. Banks claim that in rendering certain services to their clients they are doing so at the request of clients who seek their help. I do not dispute it; it confirms my remarks. I am not criticising the banks so much as I am our own profession—due, I know, to their dislike of any kind of advertising. Banking, however, is a profession too and, whilst I do not suggest that accountants should advertise, I do feel there can be no harm in the community being kept informed of the work in which the profession specialises. The President of the Board of Trade recently stated that if you had a good thing it should be well advertised. We can deliver the goods; why not follow this advice?

There are indeed many other services rendered by the accountant to the community; for example, the services rendered by accountants to municipal authorities and by accountants employed in commercial firms, cost accountants and others, and, last but not least, the great value that many accountants render to limited companies in their capacity as directors and/or chairmen.

Public Work

The work I have mentioned up to the present may be regarded as the professional side of accountants' duties, but there are many who employ their talents at little or no remuneration for the benefit of the community at large. The profession has a number of representatives in the House of Commons and in this connection such members' professional training is invaluable. No one should go into politics for what they can get out of it but rather what they can give to the community, and in this connection the profession is no exception. It is true that a member of Parliament is remunerated for his services, but after election expenses, contributions to local associations, charities and the like are deducted he usually finds himself considerably out of pocket. For this reason and the lack of time available owing to his many professional duties few can afford to undertake this aspect of public life until they have established themselves, and in most cases this means that they have perhaps passed the first bloom of youth. Therefore many accountants find other outlets for their public spirit and it is for this reason that in borough and

county councils there are to be found many qualified accountants taking an active and most valuable part in the work of local councils and their sub-committees. Here the cost—in money if not in time—to the individual is less and members of the profession should be encouraged to undertake such work.

Accountants are renowned for their modesty, but, even so, the outline I have given of some of their daily tasks in the interests of the community is sufficient to make them blush, and by the time that the second paper has been delivered to-morrow I feel that they will be unable to avoid it, as Mr. Fox will be able to say as much as I have done, and probably more, to give proof of the equally valuable services the accountant renders to the individual. I think, however, I have said sufficient to prove that the professional accountant more than justifies his existence and fills such an important rôle in the world of commerce and business to-day that without us one wonders how the world could go on!

Discussion

Mr. E. Cassleton Elliott congratulated **Mr. Bubb** on having prepared a very careful and well-reasoned paper. **Mr. Bubb's** real difficulty was with the word "Community." If he meant the whole population, then it was difficult to see how the accountant could serve the community except in the matter of Government accounts; but the speaker assumed he meant a collection of individuals or the individuals themselves. Mr. Bubb had referred to the fact that one usually found the name of a firm of accountants on prospectuses, and this gave the public more faith. But accountants could serve usefully in another way. It was often the case that an accountant was not called in until a company was in a difficult state economically, and then, if he gave a report containing some constructive ideas on how the company could be pulled round, he was asked to join the Board. It would be far better if an accountant, who was well qualified to assist the company in regard to finance, was appointed to the Board before that state of affairs arose. A director with a knowledge of figures would insist first of all upon the prompt presentation of results instead of waiting until the annual report was published to acquaint the directors of what was happening. In all well-managed companies a certain technique was followed in regard to accountancy. For instance, a budget was prepared based on the previous year's trading, and it was prepared either in calendar monthly periods, or in 13 four-weekly periods. The accountant could serve a very useful purpose by watching the transactions of the company in those periods and comparing them with the budget. When it was a matter of higher finance—rearrangements of capital, raising of capital, interviewing banks, and so on—the accountant could speak for the Board with knowledge and authority, and he might, because of his knowledge of finance, obtain better terms for the company than the ordinary directors. The speaker said, therefore, without hesitation that an accountant could serve the community in a very useful way by joining Boards of companies to which he was invited. He should, of course, be remunerated in a proper fashion, receiving director's fees which should be adequate for the work performed.

Mr. W. J. Back agreed with Mr. Bubb that the responsibility of the accountant to the investor, without whom many companies would not exist, was a matter to which sufficient consideration had not been given. In these days the capital of companies was very largely provided not by wealthy folk, but by comparatively small people, who were not so capable of safeguarding their money. Many of them treated investment as saving against a rainy day, and it was important that their interests should be considered. One could not separate such investors from the speculators who held shares hoping that they would rise. A thorny problem was provided by directors who put aside reserves and so made the appearance of the company's position worse than it was, and forced the man who was selling (because the rainy day had arrived) to sell at a lower figure than he ought.

Mr. D. Mahony, who admitted his comment could have been more appropriately made on the President's address (only that was not open to criticism), said he was sorry to see that Mr. Bubb had not advanced any recommendation in support of State insurance against air raids.

Mr. Percy Walker (Cardiff) said he and other delegates were struck by the very important point that Mr. Bubb made in saying that the auditor was really the servant of the shareholders, and not of the directors. It was a point which could not be too strongly emphasised. In that connection it would be a very good thing if the statutory right of the auditor to attend the annual meeting of a company was converted into an obligation, so that every time either the auditor or his representative could be present, and not simply have his report printed on the accounts. If that was done, shareholders would really meet their auditor and have the opportunity of putting points to him.

Mr. S. W. Hanscombe said a very important function of the accountant which Mr. Bubb had not mentioned was the capacity in which he acted as between employer and employee in industrial disputes. Another service which the accountant could usefully render to the community was by making suggestions to meet the difficulties that would arise when the armament boom had come to an end.

Mr. J. Scott-Moore suggested that the scope of the paper was not as wide as it should have been. When the services rendered by accountants were considered the functions of accountants in municipal posts were almost invariably passed over. After all, they did an enormous amount of work, and the money taken out of the pockets of ratepayers represented hundreds of millions of pounds each year. The accountants he was pleading for were practically the only safeguard as to the manner in which this huge total was spent. They were in a very real sense custodians of the public purse.

Mr. J. W. Mee said he thought the paragraph about friendly societies ought to have been extended to cover industrial and provident societies. Important work was done by accountants as auditors of co-operative societies, which held the savings of thousands and thousands of small people. Students were put through the mill in matters of executorship and trusteeship, yet when they came to practise they might meet far more work under the heading he had mentioned.

Mr. H. B. Sheasby alluded to accountancy and advertising, and said professional bodies suffered under a great disadvantage compared with banks, insurance companies and non-professional accountants. What had been called "freelance" accountants often put forward exaggerated claims and diverted from fully qualified men quite an amount of remunerative work. There was also the question of fees. Certain firms charged a flat rate of 15 per cent., or something like that, on the amount recovered. The professional accountant was much more human in his charges. He realised that it was possible to get back £100 or £200 with two hours' work, and it would be iniquitous to take 15 per cent. of that. He charged strictly on a time basis. It should really be brought to the notice of the public that one got better service from the professional accountant, and a personal type of service that one did not get from commercial bodies.

Mr. F. A. Prior thought the matter of advertising wanted very careful consideration. Mr. Bubb had referred to the accountant as a buffer. It was to be hoped the description was not prophetic. Enough had been seen of buffers in Europe. (Laughter.)

Alluding to the suggestion that accountants should serve on Boards of directors, Mr. Prior said it had always surprised him that, considering the amount of money banks invested in industry, accountants were so sparsely represented on their Boards.

Mr. J. W. Fraser thought that some of the bigger firms of accountants in the provinces were taking far too much work, and they could not keep up to date. The result was that in some private companies the audit did not start until two or three months after the year-end. If the company had

done badly, damage was done which could have been avoided if there had been no delay in the audit.

Mr. S. I. Wallis suggested that the valuation of the £ sterling was a very important factor as regards the community. Did everybody understand why trade revived when the £ sterling was de-valued in 1931 ? That was the kind of point to which accountants might give consideration, and bring out something of general value to the community.

Mr. R. A. Witty thought it did not necessarily follow that because someone else advertised the accountancy profession should do likewise. There were, after all, learned professions and professions, and there had always been a broad principle that the learned professions should not advertise. Accountants would gain more in dignity if they did not advertise than if they tried to emulate the practice of banks. Mr. Bubb had referred to an article written by the speaker in ACCOUNTANCY. It was desirable that members should realise that the article which had appeared was meant to be provocative, and it did not necessarily follow that it had to be accepted as the Laws of the Medes and Persians. Mr. Bubb dealt at some length with the history of company law, but he had missed an opportunity in dealing with the early history so briefly. The history of company law between 1844 and 1862 was one of the most fascinating periods. Up to 1862 there were two very different schools of thought on the question of limited liability. One school said there should be unrestricted limited liability, and the other school were strongly in favour of having limited liability for the investor, though leaving unlimited liability for all those engaged in the actual management of the concern. Members at the conference might well consider whether it would be an advantage to the community if some restriction of limited liability was introduced into company law. It was not impossible to imagine some legislation which would order that those engaged in management might be held liable to the extent of the amount they had drawn out over one, two or three years. There was a duty upon accountancy to do something more to protect the general community from the rampages of those who simply used limited liability legislation for the purpose of filling their own pockets.

Replying to the discussion, **Mr. Bubb** said he did not have time to deal in his paper with all the points which had been raised. Mr. Witty knew more about the history of company law than he did. It would be generally appreciated that during the last 40 years the number of private investors had greatly increased, and the time would come when it would be necessary for the auditor to do his utmost to protect the small investor. The time was ripe, but perhaps the opportunity was not, for a further Companies Act, and he imagined the day would come when the points raised at the conference would have consideration. It was a very good proposal of Mr. Walker's that auditors, or their representatives, should be compelled to attend the annual meeting and give their reports. There was only one condition that he (Mr. Bubb) would make, and it was that if shareholders were to ask auditors questions, notice of these questions should be sent to the auditors in advance. He entirely agreed with Mr. Mahony —and probably 99 per cent. of the community did—that there should be State insurance against air raids. As for advertising, he had not contemplated advertising in the ordinary sense, but something more in the nature of publicity on the lines that the Stock Exchange practised. There was a need for public information of the type of work which accountants undertook.

The **President** closed the meeting by saying that the conference owed a great debt to Mr. Bubb and other speakers.

Legal Notes

INSOLVENCY

Bankruptcy Rules, 1915, *Rule* 156—*Debtor who departs out of the Jurisdiction and Conceals Whereabouts—Substituted Service of Petition impossible.*

Rule 156 of the Bankruptcy Rules, 1915, provides that if personal service of a petition cannot be effected because the debtor is keeping out of the way to avoid such service, or if for any other cause prompt personal service cannot be effected, the Court may order substituted service by delivery of the petition to some inmate at the debtor's usual residence or place of business, or by registered letter, or in such other manner as the Court may direct, and that such petition shall then be deemed to have been served on the debtor. There have been many cases where the Court has allowed substituted service by means of newspaper advertisement. It is a fundamental principle of English law that a person shall have effective notice, if it be possible, of any process instituted against him in the Courts. That principle applies in the case of a bankruptcy petition. In the words of Lord Reading, in *Porter* v. *Freudenberg* (1915, 1 K.B. 857), the Court must be satisfied " that the method of substituted service is one which in all reasonable probability, if not certainty, will be effective to bring knowledge of the petition to the defendant." In English law there is nothing corresponding to " constructive service " as in Continental countries, such as by public notice or advertisements, whereby a defendant may be condemned unheard because he has had no knowledge of the proceedings against him.

From the decision of the Court of Appeal in the recent case of *In re a Debtor*, No. 419 of 1939 (1939, 3 All E.R. 429), it appears that where the debtor has gone out of the jurisdiction and conceals his whereabouts, it is impossible to serve a bankruptcy petition in compliance with the Bankruptcy Rules. The facts were : The debtor went to the United States in April, 1939, with the intention of proceeding to Canada. The petition was filed on May 19, 1939. The petitioning creditors asked that substituted service should be allowed by advertisement in certain London newspapers. That application was refused. An amended application then asked that the advertisements should be inserted in the *New York Times* and in the *Evening Cuizen*, which circulates in Canada. The Registrar refused the application, because there was no reason to believe that the advertisements were certain to come to the notice of the debtor. The Court of Appeal affirmed the Registrar's decision. It should be noted that the evidence in the case showed that the debtor had taken a return ticket for the voyage, and it was not shown that he was still in the United States or in Canada. There is no rule covering the case of a debtor who departs out of the jurisdiction and conceals his whereabouts, so that in that way a debtor can successfully avoid service.

EXECUTORSHIP LAW AND TRUSTS

Power of Appointment—Release of Power to Appoint in favour of Named Object—Later Appointment in favour of same Object Invalid.

By the Law of Property Act, 1925, section 155, a person to whom any power of appointment is given (whether coupled with an interest or not) may, by deed, release or contract not to exercise the power. In *re Brown's Settlement, Public Trustee* v. *Brown* (1939, 3 All E.R. 391), Morton, J., decided an interesting question regarding the limiting of special powers of appointment. The case was one not covered by previous authority. The facts were : By a settlement made in 1895, a trust fund was settled on trust to pay the income to the settlor's wife for life, then to the settlor, and after the death of both of them, in trust for the settlor's issue born in his lifetime, by his then or any future wife, not before attaining the age of 21 years, or marrying, in such shares and manner as the survivor of the settlor and his wife should by deed or will appoint, and in default of appointment in trust for any such child or children, if more than one, in equal shares. The settlor predeceased his wife in 1914. He was survived by a son and two daughters, all born during his life and over the age of 21 at the date of the summons. He was also survived by grandchildren, one of whom, C.E.W., was a defendant to the summons. In 1928, the settlor's widow by deed poll released all the trust funds comprised in the settlement from her powers of appointment in favour of C.E.W. By her will made in 1937, she purported to appoint that one-third of the trust fund comprised in the settlement should be held upon trust to pay the income to her son for life and thereafter upon trust as to capital and income for the son's daughter, C.E.W., absolutely. The settlor's widow died in 1938, and the trustee asked the Court to determine the question whether the release of 1928 precluded the widow from appointing thereafter in favour of C.E.W. under the power in the settlement. The Judge held that the release was valid and precluded the donee from making any appointment in favour of the granddaughter, C.E.W., after the date of the release. In the previous case of *In re Evered* (1910, 2 Ch. 147), Cozens-Hardy, M.R., regarded it as clear that a release of a special power of appointment might apply to the whole or to a part only of the fund, and that a covenant by the donee of a power not to exercise it in favour of a particular object of the power would be effective. But the present case of *In re Brown's Settlement* is the first reported case in which the effect of a release of (as opposed to a covenent not to exercise) a power as regards a named object of the power has been considered.

Will—Administration—Gifts to Testator's Children—Hotchpot—Appropriate Date for Valuation of Estate.

When beneficiaries who divide a residuary estate have to bring into hotchpot sums advanced to them by the testator in his lifetime, their net shares may vary considerably according to the date fixed for valuation of the residuary estate for purposes of division. Thus, if it is valued at the date of death and the value materially rises before distribution, a larger portion of the estate is required to meet the advance than would be required if the date of valuation were the date of distribution. Advanced beneficiaries would, therefore, receive a smaller net share, unless they could show that the proper valuation date was the date of distribution. In *re Gunther's Will Trusts, Alexander* v. *Gunther* (1939, W.N. 265), the facts were : By a will dated July, 1919, a testator, who died in 1931, bequeathed his residuary estate to trustees on trust for sale and conversion, with power to postpone sale. Proceeds were to be divided into equal moieties, the first moiety to be held in trust for children of his first wife who should survive him in equal shares, the income of the second moiety to be paid to his second wife for life, and subject thereto that moiety was in trust for children by her who should survive him and attain 21 years in equal shares. He directed that in the division of the residuary trust fund there should be brought into hotchpot between the two moieties and charged against them respectively certain stated sums, and that in the division of the first moiety as between children of the first marriage certain other stated sums should be brought into hotchpot and charged against the respective shares in such moiety. It was a large estate. Administration was complicated and there had not been a final distribution of capital. The investments had altered considerably in value, and the Court had to decide at what date the estate should be valued for the purpose of discharging the rights of the parties *inter se* in the final distribution. Farwell, J., held that, as the will contained no indication of the testator's intention, the proper date of valuation was the date of the testator's death.

Executors and Administrators—Statute of Limitations—Lapse of Time in respect of Liability for Leaseholds—Payment out of Court of Indemnity Fund.

In *re Blow* (1914, 1 Ch. 233) it was decided that the legal personal representatives of a deceased person can plead the Statute of Limitations. In the recent case of *re Lewis, Jennings* v. *Hemsley* (1939, 3 All E.R. 269), Simonds, J., had to decide whether a claim against an executor was barred by lapse of time in the following circumstances. A sum of money was paid into Court in 1891 in the administration of an estate under an order that the executor should be at liberty out of the assets of the testatrix remaining in his hands to raise the sum of £5,000 and the costs directed to be paid into Court. It was admitted that the executor was entitled to be indemnified out of the assets of the estate against liability in respect of certain leasehold property bequeathed by the testatrix. Thereupon it was ordered that the executors

should be at liberty to distribute the estate of the testatrix. It was admitted that all the debts and legacies had been paid and that the estate had been fully and properly administered, with the exception of the payment of the further costs directed to be paid, and it was also admitted that the accounts down to May 25, 1921, were correct. The sum of £5,000 was paid into Court, and the income thereof had been paid to the beneficiaries entitled under the will. It was contended that the representatives of the testatrix's estate no longer needed protection or indemnity. Simonds, J., accepted that contention. A fund paid into Court in the circumstances of the present case was made not for the benefit of the lessor, but solely for the indemnity of the executors or trustees so paying it in. The lessor as a possible future creditor could not require the provision of such a fund. The only question, therefore, was whether the legal personal representatives in 1938 needed protection from possible liability under the leases forming part of her estate. Following the authority of *re Blow*, the legal personal representatives had a complete answer to any claim against them in that respect. As any claim against the executor was barred by lapse of time, the money in Court was ordered to be paid out to the beneficiaries.

SECRETARIAL

The Quorum

Generally a meeting cannot consist of less than two persons (*Sharp* v. *Dawes*, 1876, 2 *Q.B.D.* 29). There are, however, certain exceptions to this rule, *e.g.*, where one person is appointed a committee ; (*In re Taurine Co.*, 1884, 25 *Ch.D.* 118), where one creditor only has lodged a proof of debt for a creditors' meeting ; where all the shares of one class are held by one person. A resolution, however, approved by one person holding proxies for others would be invalid (*In re Sanitary Carbon Co.*, 1877, *W.N.* 223). It therefore follows that if two, subject to defined exceptions, is the minimum number for a meeting, there cannot be a quorum of less than two.

It is for self-constituted bodies themselves to fix their own quorum, the minimum number being determined by the size of the body. In the absence of any such determination the major part could act (*Attorney-General* v. *Davy*, 1741, 2 *Atk.* 212).

Disinterestedness of Quorum

A quorum means a quorum competent to take part in, and vote on, the business under consideration (*Yuill* v. *Greymouth Point Elizabeth, etc. Coal Co., Ltd.*, 1904, 1 *Ch.* 32). Disqualification may arise through statute ; internal regulations ; or legal disabilities such as insolvency or bankruptcy. Statutory disqualifications are contained in Section 149 of the Companies Act, 1929, and also in Sections 59 and 76 of the Local Government Act, 1933. Until the passing of the Companies Act, 1929, the question of the disinterestedness of the quorum was a matter of common law.

Section 149 of the Companies Act, 1929, provides for adequate disclosure, in the prescribed manner, in cases where a director is in any way directly or indirectly interested in a contract with the company. The Section does not apply to general meetings of a company, and a director in such cases, even though interested in the subject matter before the meeting, may vote as a shareholder (*North-West Transportation Co.* v. *Beatty*, 1887, 12 *App. Cas.* 589).

Articles often provide for an interested director to be counted in the quorum, and even to vote, if the necessary disclosure required by law or regulation is made. It would not be possible, however, for interested directors to vote for the reduction of the quorum to enable the remaining directors to agree to a resolution which could not previously be approved, through the inability to secure a disinterested quorum (*In re North-Eastern Insurance Co.*, 1919, 1 *Ch.* 198).

Articles of a company sometimes provide for disqualification if a director holds an office of profit in the company. The office of director in such cases would cease immediately upon his accepting office. If, however, the office was not a salaried one, the disqualification would not apply (*Foster* v. *Foster*, 1916, 1 *Ch.* 532). Articles often do, and it is desirable that they should, especially in the case of small private companies, provide for directors to hold salaried appointments.

In a case recently before the Court, the liquidator rejected a proof of debt from one " A," a director, on the ground that the loan in respect of which " A " claimed was made without authority of the company. The company consisted of only two directors, of whom " A " was one, and the Articles provided for meetings of directors, for a quorum of two. Director " A " and the other director " B " resolved in Board meeting that advances made by " A " to a subsidiary company were to be assumed by the company. It was held that the resolution was inoperative because it had not been passed by a quorum competent to act, and the action of the liquidator in rejecting the proof was therefore upheld (*In re Cleadon Trust, Ltd.*, 1939, 55 *T.L.R.* 154).

Section 59 of the Local Government Act, 1933, provides that a person shall be disqualified from being a member of a local authority if he (1) holds an office of profit under the authority ; (2) is adjudged bankrupt ; (3) has received poor relief within twelve

months of his election; (4) has been surcharged or suffered a term of imprisonment of three months or over within five years of election. Section 76 of the aforementioned Act extends to members of local authorities the obligation to disclose their interests in contracts, on conditions similar to those in Section 149 of the Companies Act. It should be particularly noted that Section 76 applies only to voting on an interested matter and not to membership.

Standing Orders of local authorities often contain provisions for disqualification of office, or prohibition from voting, additional to the stringent provisions laid down by statute.

Where a Quorum Cannot be Secured

It may sometimes be impossible to secure the quorum required under the Articles. Such a condition existed in *Edinburgh Workmen's Houses Improvement Co., Ltd., Petitioners*, 1934, *S.L.T.* 513, and the company petitioned the Court under Section 115 (2) of the Companies Act for instructions in the matter. The Court directed that at the necessary meetings the quorum be five in number personally present, instead of the thirteen which it was impossible to get under the Articles. It was held in that case that the term " impracticable " in Section 115 (2) is sufficient to cover a case where it is impracticable, owing to the terms of the Articles, to secure a meeting with the appropriate quorum.

Section 115 (1), which provides that in the case of a private company two members, and in the case of any other company, three members personally present, shall be a quorum, is a useful provision in the unlikely event of the Articles making no provision as to a quorum.

Unless the Articles provide for proxies, the quorum must consist of members personally present, subject to the statutory right under Section 116 of the Act for a representative of a corporation to be present by proxy. Such a representative, having all the rights of membership, could be included in the number required for a quorum.

In the case of companies registered after 1929, Clause 83 of the Table A of The Companies Act makes a useful provision empowering continuing directors to act for the purpose of increasing the number of directors to that required under the Articles, or of summoning a general meeting of the company. In this connection it is important to note that the term " continuing directors " connotes the singular as well as the plural, and a sole continuing director could act for the purposes indicated (*Fell* v. *Derby Leather Co.*, 1931, 2 *Ch.* 532).

Articles do sometimes provide for a quorum at an adjourned meeting less in number than that required for the original meeting. Table A, Clause 46, states that if at an adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting, the members present shall be a quorum.

Where a Quorum Cannot be Maintained

The question may sometimes arise whether it is necessary to maintain a quorum throughout a meeting. Table A, Clause 45, provides that no business shall be transacted at any general meeting unless a quorum of members is present at the time when the meeting proceeds to business. In view of the rule that a body can make whatever regulations it likes regarding the quorum, it is sometimes asserted that business can be transacted at a meeting where the requisite quorum has, during the continuance of the meeting, fallen below the legal minimum. There appears to be no decided case on this point, and it would therefore be prudent for the chairman to ensure that a quorum is maintained throughout the meeting.

Business at Meeting Where There is No Quorum

Any business transacted at a meeting where no quorum is present would be invalid. Third parties would, however, be protected against any consequences that may arise from the execution of a contract at an improperly constituted body, provided they had no notice of the irregularity. " Outsiders are not expected to search the company's minutes as to the internal regulations, and they are to presume that the document is, on the face of it, in order " (*County of Gloucester* v. *Rudry Merthyr Steam, etc. Colliery Co., Ltd.*, 1895, 1 *Ch.* 629).

Articles often contain a provision to the effect that a resolution in writing signed by all the directors shall be as valid and effectual as if it had been passed at a meeting of the directors duly called and constituted. Such a provision is very useful in cases where it is physically impossible to secure the presence of the number of directors required for a quorum.

IN PARLIAMENT

INCOME TAX (SICKNESS AND DISABLEMENT BENEFIT)

Mr. Wedgwood Benn asked the Chancellor of the Exchequer whether he is aware that in April, 1933, a claim for income tax made by a local Bournemouth inspector upon Mr. T. J. Potter, of Southbourne, Hampshire, a member of the United Law Clerks' Friendly Society, was withdrawn at the instance of the Inland Revenue Department at Somerset House, on the ground that the benefit received by him from the society named was in the nature of a continued sickness or disablement benefit; whether the action taken by the Inland Revenue Department in that case is affected by the decision given on July 11, 1939, by the Special Commissioners in the case of Forsyth; if so, in what way was it affected, and will Mr. Potter henceforth be called upon to pay income tax upon his benefit?

Sir J. Simon: As regards the first part of the question, the case referred to had already been brought to my notice. As regards the remainder of the question, I am unable to discuss the income tax position of individual taxpayers, particularly in relation to a decision of the

Special Commissioners which, I understand, is to be the subject of appeal to the High Court.

Mr. Benn : Is the right hon. Gentleman aware that many income tax payers are now being assessed on the Forsyth judgment ? I am asking about Mr. Potter in order to know whether the right hon. Gentleman is exercising some private discretion as between taxpayers.

Sir J. Simon : Of course, there is no private discretion exercised by me.

Mr. Benn : Will the right hon. Gentleman answer my question ? Does the Forsyth judgment cover other cases of the same kind ?

Sir J. Simon : That is not a question on which I can lay down the law. My own view is that the judgment in the Forsyth case was given on the facts of that case, but it is going to appeal, and only when the appeal is decided will a final reading of the case be possible.

Mr. Benn : Has not the right hon. Gentleman stated that he proposes to collect tax from other taxpayers on the basis of the provisional decision in the Forsyth case ?

Sir J. Simon : I do not think I have. I have never taken the view that the Forsyth case altered the law at all. I have explained in the House several times the application of the existing law.

Dr. Haden Guest asked the Chancellor of the Exchequer whether he is aware that the Special Commissioners, when asked to state a case for the opinion of the High Court in the case of Mr. Forsyth, stated that the demand was premature as the liability had not been agreed ; and will he, in view of the importance of this case as a governing case probably affecting thousands of other persons, take steps to expedite a decision ?

Sir J. Simon : I understand that the Board of Inland Revenue have informed the Special Commissioners that, so far as they are concerned, the Board will offer no objection if the Special Commissioners see fit to state the case for the opinion of the High Court on the points arising in Mr. Forsyth's appeal, leaving the determination of the actual amount of the liability to await the Court's decision.

Dr. Guest : Can the right hon. Gentleman say whether this will enable the appeal to proceed as I understand that otherwise the appeal could not possibly come on until October ?

Sir J. Simon : The hon. Member will realise that the Special Commissioners in this matter are a tribunal and I can, no more than anybody else, direct a tribunal. But the Board of Inland Revenue is one of the litigants and the Board has indicated to the Special Commissioners that it does not desire to wait until the figures are settled. Therefore, I think we are doing everything we can to expedite the appeal.

DISTRICT AUDITORS (QUALIFICATIONS)

Mr. Silkin asked the Minister of Health what are the professional or other qualifications required for the appointments of district auditor and inspector under the Ministry ; and how and by whom are they appointed ?

Mr. Elliot : The district audit staff is recruited through the Civil Service Commission in the same way as other civil servants. Promotion to the rank of district auditor and other senior grades is normally dependent on the passing of a special qualifying examination. A number of these senior officers have in fact diplomas of accountancy from recognised outside bodies.

MACHINE TOOLS (COSTING)

Mr. R. C. Morrison asked the Minister of Supply what action he proposes to take in connection with the charge of excessive profit-making from defence contracts made by certain machine-tool makers, and their refusal of facilities to check prices, as reported to the House by the Select Committee on Estimates ?

Mr. Burgin : I would refer the hon. Member to the answer given by my right hon. Friend the Chancellor of the Duchy of Lancaster to the hon. Member for Stoke (Mr. E. Smith) on June 14 last. This question has been the subject of prolonged discussion between the Minister for Co-ordination of Defence and the Machine Tool Trades' Association, and I have now reached an agreement with the Association, for a period of one year from December 5, 1938, under which they have recommended their members to give a discount of 5 per cent. on all standard productions delivered after that date ; and under which Departments will have the power to investigate costs in the case of non-standard productions, with the same retrospective effect. Steps are now being taken to implement this agreement.

Mr. Morrison : Is the right hon. Gentleman now satisfied that the patriotism of machine-tool makers is beyond reproach ?

Mr. Austin Hopkinson : Does the right hon. Gentleman think that a 5 per cent. repayment is satisfactory in view of the terrific profits which they have made in the last few years out of the country ?

Mr. Burgin : I am satisfied that the deliveries since December 5, 1938, will, in fact, cover the bulk of the orders for the rearmament programme, and that a 5 per cent. deduction on the standard tools will amount to a large sum of money, and that the power in the case of non-standard tools is an extremely valuable right to the Government.

Mr. Hopkinson : Will the right hon. Gentleman now answer my question ?

MILITIA CAMPS (CONTRACTS)

Mr. Noel-Baker asked the Secretary of State for War what conditions he attaches to contracts for the construction of Militia camps to prevent excessive charges for depreciation of the plant used by the contractor ?

Mr. Hore-Belisha : The practice in contracts under which my Department is liable for the prime cost of the work of constructing Militia camps is to stipulate that the charges to be made for depreciation of the contractor's plant are to be agreed between the two parties. These contracts are being specially supervised, and are subject to a costings investigation before payment of the final bill.

INDEX AND BINDER FOR *ACCOUNTANCY*

The October, 1939, issue of ACCOUNTANCY will contain a complete index of the issues from October, 1938, to September, 1939. Particulars will also be given in the next issue of arrangements for binding the year's copies in permanent form.

FINANCE

The Month in the City

The City and the Crisis

In the closing days of August crisis measures in the City were bringing about rapid changes, both physical and financial. Many financial institutions carried out a precautionary evacuation of at least part of their staff, and one change of outstanding importance was the removal to the provinces of the Bankers' Clearing, except for a small town clearing housed in the Bank of England. At the same time the crisis had dramatic repercussions in all sections of the City's markets, though it is surprising to how small an extent the normal functioning of markets was interfered with by official action. The restrictions on the sale of dollar securities naturally had the effect of stopping business in the American and foreign bond markets. In the earlier days of the crisis the fixing of minimum prices also brought dealings in gilt-edged to a virtual standstill, but on August 29 a fair volume of business was passing at prices appreciably above the minima. Owing to the raising of bank rate, however, the discount market bond position was thrown into confusion, as the minimum prices fixed for the money market shorts showed very wide variations in yield between the different securities, while in some instances (notably Treasury Ones) the yield on this basis was considerably below the new price for short money of 3¼ per cent. Meanwhile, till rates, after seven years of ultra-cheap money, jumped to the vicinity of the 4 per cent. bank rate. Industrial securities, however, actually improved in the closing days of the month side by side with the depreciation in sterling, while gold shares benefited even more directly through the accompanying jump in the price of gold to new record levels. Both the gold and the silver markets continued to function in complete freedom, and commodity prices rose in active markets, notwithstanding the prohibition on the export of essential commodities and the severe dislocation of shipping.

The Mendelssohn Affair—

Like every other bank failure, the collapse of the prominent Dutch banking house of Mendelssohn & Co. is yet another warning against the extreme inadvisability of borrowing short and lending long. Though many people in the City professed to be wise after the event, there is no doubt that the suspension of payments came as a great shock to financial circles generally. In recent years the bank had been at the head of almost every banking syndicate formed to carry out the international credit operations of Continental governments, and in the relatively short period since the Amsterdam firm was established as an offshoot of the Berlin house the name had won for itself an enormous prestige. It was one of the largest of these operations which ultimately prepared the way for the firm's downfall. Its relations with the French Government had always been particularly close, and in May last the firm was entrusted with the consolidation of French short-term indebtedness in Holland and Switzerland. Mendelssohn's themselves took firm fl.155 million of French 4 per cent. Treasury bonds for six years, and in association with a Swiss group undertook the conversion of fl.100 million of bonds and notes issued by the Treasury and the French railways. Since the bonds were payable at the option of the holder in florins, Swiss francs or dollars at a fixed parity, the operation involved a substantial exchange risk in addition to the risk of being unable to place them—as certain foreign subscribers realised when the bank's failure presented them with a lock-up in guilders for six years which it is impossible fully to cover in the forward exchange market.

—Its Effects on the Financial Centres

At the same time, the operation cannot have seemed as dangerous at the time as it does in retrospect. Under M. Reynaud's guidance French credit has been improving rapidly, and for years the Dutch money market has actually suffered from a plethora of liquid funds. It was the subsequent flight of funds from Holland due to war fears which first raised difficulties for the bank, and the mischief was completed when the death of Dr. Fritz Mannheimer, the bank's presiding genius, led to the cancellation of short-term credits. Fortunately, the failure has had no untoward repercussions. The attempt to discredit M. Reynaud has failed completely and any damage to French credit can be repaired by judicious support of the market. London banks, unexpectedly, were not involved at all. Nobody in the City is quite sure whether this reflects credit on the perspicacity of our bankers for withdrawing in time, or is one more sign of the decay of London as an international financial centre.

The New Sharepushing Rules

Parliamentary draftsmen, no less than statisticians and economists, are always up against the difficulty of so framing a definition as to draw the line exactly where one wants it, and in the case of the so-called Sharepushing Bill the problem has been one of extreme complexity. In its original form the Bill would have affected unimpeachable operators in securities such as the banks and discount houses. Even the final version does not quite succeed in distinguishing the sheep from the goats, as has been illustrated this month by withdrawal from business of two well-known and respected firms of outside dealers. The name of one of these—Cornforths—was practically synonymous in the City with the reputable

outside broker. It was certainly not desired to drive these firms out of business, and indeed it is understood that the decision was taken only after friendly discussion with the Board of Trade. But the basis of Cornforths' business was the so-called deferred delivery system under which clients were allowed to pay cash for only a proportion, usually 20 per cent., of their purchases. Under the new rules, licensed dealers are prohibited from " holding themselves out " as willing to undertake such transactions except as agents, and it was found impossible to amend the rules suitably without opening loopholes in the Act. Other genuine outside brokers are expected to be able to carry on by adapting their methods and becoming members of the Association of Stock and Share Dealers, when they will require no licence.

Points from Published Accounts

Gaumont-British Picture Corporation.—It has been remarked that cinema companies are much less ostentatious in displaying their financial results than in advertising their wares. Certainly, none of the trade's superlatives could properly be applied to the Gaumont-British Picture Corporation accounts. For a concern whose assets, at book values, closely approach £13 million, the volume of information afforded by the profit and loss account and balance sheet is far from superabundant. The usefulness of the report is limited by the absence of comparative figures. But perhaps the most unusual feature lies in the profit and loss account. A single credit item is given, consisting of " Profit, including income from investments, profit on redemption of debenture stock, etc." totalling £713,498. This mixture of direct trading income, receipts from subsidiary and associated companies, and profit of a capital nature deserves more elucidation than it receives in the profit and loss account. In particular, the debenture redemption profits appear to warrant separate statement. The only clue to their possible extent lies in the balance sheet, which shows that during the year some £212,452 of debenture stock was redeemed. Since the stock stood at a considerable discount during the year, the resulting profit may well have been an important factor in the results. Taken generally, the latest report provides no more information than its predecessors regarding the financial results of the group as a whole.

Associated British Picture Corporation.—Unlike the Gaumont-British report, the Associated British report includes a consolidated balance sheet, but unfortunately it does not explicitly dovetail with the statutory accounts. It shows, for example, total reserves at £3,296,937, a figure which appears to correspond closely with the sum of general reserve (£2,625,000 before the latest year's provision) and reserve for depreciation and amortisation (£650,000 before the latest provision) shown in the parent company's balance sheet. The balances at profit and loss account, shown in the consolidated statement, are similarly close, at £680,376, to the balance of £680,087 shown in the parent company's accounts, before providing for reserve provisions and the final ordinary dividend. On the other hand, the consolidated statement shows a reserve for taxation amounting to £249,259, which finds no counterpart in the parent company's balance sheet, though a sum of £216,103 is charged in the profit and loss account for taxation. On the assumption that the charge represents the actual amount paid to the Revenue authorities during the year, while the consolidated reserve represents provisions made by the subsidiary companies, it may be concluded that the consolidated statement is struck at the same point as the parent company's balance sheet. The point is by no means academic, for if provision has to be made from the balance at credit of consolidated profit and loss for the parent company's final ordinary dividend, it has a significant bearing upon the net current assets position of the group. If the conclusion reached above is correct, it would appear that the group has a net deficiency of current assets, amounting to £145,144. It may be noted, incidentally, that the consolidated statement is signed by two directors, but bears no auditor's certificate.

South African Distilleries and Wines.—The assets of this company consist almost entirely of shares in two subsidiary companies in South Africa. The parent company is a British concern, and renders its accounts in sterling. An interesting method has been adopted to present the results of the subsidiary concerns, and to show the effect of currency differences, in the directors' report of the parent company. This sets out the consolidated net profits of the subsidiaries, both in South African pounds and also in sterling, for their financial years to February 28. Payments and reserves for South African taxation are deducted, and adjustment made for differences in the operating companies' balances carried forward. The resulting sterling balance agrees with the dividends received by the parent company for the year to June 30. Though the consolidated profit figures for the subsidiaries might be given in greater detail, the result of this method is to indicate to the shareholder the derivation of the parent company's income from the earnings of the operating companies.

Arthur Guinness, Son & Co.—The preliminary profits statement of this company provided sufficient information from which to deduce profits, without stating them directly. The full report, although it sets out the figures in considerable detail, includes one feature which is open to comment. The interim dividends on the preference and ordinary stock have been grouped together in one gross sum, and a composite total for income tax on both classes of payment is then deducted. The same method is adopted in accounting the final dividends, both preference and ordinary payments again being treated jointly for tax purposes. Hence, the ordinary stockholder who wishes to know how much was earned for the ordinary stock is put to the task of dissecting two tax provisions, as between preference and ordinary stocks, and calculating the net dividends paid. This is not a major mathematical problem, admittedly, but it is a source of inconvenience which could easily be avoided if each interim and final payment, on both the preference and ordinary stocks, were to be shown in the directors' report after deduction of tax.

PUBLICATIONS

The Month's Publications

Modern Accountancy. By John E. Almond, A.C.A. (Antony John, Ltd., London. Price 12s. 6d. net.)

Mr. Almond, having decided to write a book " which shall contain none of the faults of existing books " has set out in his foreword the special demerits of accountancy literature which he intends to avoid. The list includes the inadequate treatment of balance-sheet lay-out criticism, the neglect of company reconstructions and consolidated balance-sheets and, on the other hand, the over-emphasis of legal and commercial minutiæ. As a result, " Modern Accountancy " is largely devoted to company accounts, in which sphere it achieves a cheerful " slickness " (and occasionally a clarity) denied to works of a profounder character. Within the limits of its purpose (the examination room) the book has, however, decided merits, and it should be found useful by Intermediate candidates. The examples are well chosen, though sometimes over simplified, and there are adequate chapters on the elementary theory of the valuation of shares, mechanised accounts and rapid calculations.—B. Nelson.

Principles of Bankruptcy. By Harold Potter, Professor of English Law in the University of London ; Terence Adams, Solicitor ; and Augustus W. Dickson, Solicitor. Second edition. (Butterworth & Co. (Publishers), Ltd., London. Price 12s. 6d. net.)

Bankruptcy, Liquidation and Receivership. By N. E. Mustoe, M.A., LL.B. With Accounts by W. A. Kieran, A.S.A.A. (Butterworth & Co. (Publishers), Ltd., London. Price 15s. net.)

In these difficult times it is hard to believe that anything can be certain, but, unfortunately, it seems reasonably certain that the future will have its share of financial embarrassments. Further, it is certain that those in trouble will turn to the lawyer and the accountant for guidance. In consequence, the professional man has no alternative but to keep abreast of the multifarious rules and regulations governing these unfortunate happenings.

" Principles of Bankruptcy," by H. Potter and others, is written in clear, concise and effective language.

Chapter 1 is devoted to Deeds of Arrangement, a very popular method of dealing with insolvent estates which are free from allegations of fraud. The remaining sixteen chapters have been carefully thought out and explain bankruptcy in all the appropriate steps from its commencement to its conclusion. Without the exhaustiveness of the most complete works of reference, sound knowledge can be obtained in the study of this attractive book.

Mr. N. E. Mustoe, in " Bankruptcy, Liquidation and Receivership," has succeeded in covering much ground in most attractive style, giving at the end of each chapter a selection of cases. The inclusion in appendices of a specimen Deed of Arrangement, specimen Statement of Affairs and Deficiency Account for Bankruptcy and Liquidation, and the appropriate forms to bring about the appointment of a receiver, are much appreciated. The questions and exercises at the conclusion of the book should prove most useful to the student. It is to be regretted that there appears hesitation on the part of authors to refer to loopholes in the law.

Less than one page is devoted to Members' Voluntary Winding Up ; in consequence, there is no reference to the absence of penal sections to deal with abuse, or how creditors can protect their interests in this type of liquidation. Nevertheless, the book is well worthy of serious study.—Albert V. Hussey.

Manual of Company Law and Conveyancing in Scotland. By Lachlan Mackinnon, D.S.O., M.A., LL.B., Advocate in Aberdeen, Lecturer in International Law at the University of Aberdeen, and William Elder Levie, Advocate in Aberdeen. (William Hodge & Co., Ltd., Edinburgh. Price 12s. 6d. net.)

In their preface to this book the authors remind us that " Since the passing of the Companies Act, 1929, there has been no book by a Scottish solicitor dealing comprehensively with Scottish company law and practice." The Act made several important alterations in the law, and this omission was a cause of reproach to the legal profession in Scotland. It was also a serious handicap to legal practitioners and to all men of business, whether lawyers or laymen, concerned with the formation and administration of companies in Scotland. The Act applies to both England and Scotland, and in the main company law is the same in both countries. There are, however, several important aspects of company law in which the law of Scotland differs from that of England, and exclusive reliance on an English textbook may sometimes prove to be a trap for the unwary Scottish practitioner. The authors of this admirable treatise have now effectively repaired the omission. They describe the book as a manual, and it is not intended to take the place of the great standard works written by English lawyers. It does not profess to be an encyclopædia, but within the compass of little more than 300 pages it deals with all the leading principles of company law and the corresponding requirements of the Act.

In a book intended for Scottish readers, due prominence is given to differences between English and Scottish law, and throughout the book the statement of the law is accompanied by a full citation of Scottish authorities. The authors set themselves a difficult task, to produce a book which would be of use to both legal and non-legal readers, but they have been completely successful, because they possess the faculty of precise statement combined with lucidity. The book is furnished with an appendix which contains a variety of information on matters of practical importance, such as, for example, notes on the steps of procedure, arranged in chronological order, which should be followed in a members' voluntary winding-up and a creditors' voluntary winding-up respectively. Although the book is intended primarily for the use of legal practitioners and other mature readers, students of law and accountancy will find it most helpful to them in their studies.—Charles Milne.

BOOKS RECEIVED

Guide to Current Official Statistics of the United Kingdom. Vol. XVII. 1938. (H.M. Stationery Office. Price 1s. net.)

Private Companies: Their Management and Statutory Obligations. By Stanley Borrie. Fifth edition. (Jordan& Sons, Ltd., London. Price 5s. net.)

Accounting under the Moneylenders Act, 1927. By Donald W. T. Bruce, A.C.A. (Solicitors Law Stationery Society, Ltd. London. Price 4s. net.)

Standard Forms of Summary of Rate Estimates, Recommended for Adoption by Local Authorities. (Institute of Municipal Treasurers and Accountants, London.)

Tolley's Complete Income Tax, Sur-tax, etc., Chart-Manual. By C. H. Tolley, A.C.I.S., F.A.A. Twenty-fourth edition, 1939-40. Supplements on the National Defence Contribution and Income Tax in Eire. (Waterlow & Sons, Ltd., London. Price 4s. 8d. net.)

Prevention of International Double Taxation and Fiscal Evasion. Two decades of progress under the League of Nations. By Mitchell B. Carroll. (Allen & Unwin, London. Price 1s. 6d. net.)

The Victorian Companies Act, 1938. A summary of the principal changes in the law, with special reference to accounts. (Commonwealth Institute of Accountants, Victorian Division, Melbourne. Price 2s. 6d. net.)

Standard Forms of Summary of Rate Estimates. Prepared by the Council of the Institute of Municipal Treasurers and Accountants and recommended for adoption by local authorities.

Tolley's Handbook of Income Tax and Sur-Tax and National Defence Contribution. By C. H. Tolley, A.C.I.S., F.A.A. (Waterlow & Sons, Ltd., London. Price 1s. net.)

STUDENTS

Higher Interest Rates?

In two recent articles in *The Times*, Mr. J. M. Keynes has again advanced arguments and pleas for low rates of interest on Government Loans. With an early prospect of heavy defence borrowing there is no doubt about the practical importance of the problem he has discussed.

It is common knowledge that the successful conversion of the 5 per cent. War Loan in 1932 inaugurated a cheap-money policy, and that practically up to the crisis of 1938 that policy was successfully pursued. It is true that a slight tendency for gilt-edged securities to fall was apparent from the autumn of 1936, but so skilfully was the market managed that even those who thought that the rate of interest should harden were thrown into a state of at least some uncertainty by the steadiness of security prices. And the longer this steadiness could be maintained—by the control of foreign investment and by the control and timing of municipal borrowing—the greater was the probability that the public would endow 3½ per cent. with the same peculiar sanctity with which they had once regarded 5 per cent. and the 1914 level of prices.

Mr. Keynes's arguments are not all on the same plane. He first advances what may be termed a purely scientific argument; secondly, a psychological argument; thirdly, a controlled economy argument; and, fourthly, an argument arising from political scepticism. But pursuing, as it were, in economic controversy the tactics of aerial warfare, he is liable to mystify the general reader by the agility with which he passes from one plane to another.

The purely scientific argument is that the magnitude of saving is dependent not only on the rate of interest, but on the level of incomes. This would appear to be self-evident were it not that in economic discussion it was apt to be overlooked because the older economists assumed a state of "full employment," *i.e.*, that everybody was employed who could possibly be employed at existing wages consistent with the difficulties arising out of transfers from one region to another, seasonal variations, loss of skill, and so on. There is, of course, a lag in saving, even when "full employment" does not exist: an initial period when people are building up their stocks of all kinds of things which have been allowed to run down during the period of unemployment. But once that has been done, it is reasonably probable that there will be some increase in individual saving. The same argument applies to corporate saving, where arrears of expendi-

ture on maintenance are likely to be made good before much addition can be made to undistributed reserves. But the saving to the Exchequer through the fall in unemployment relief is almost immediate and is not offset. It is important to remember, however, that while theoretical *emphasis* on this point is new, the fact is not new. If there was full employment during the last war, then, other things being equal, conditions were in fact as favourable to saving then as they may again shortly become.

The psychological argument is a generalisation of the 1932-1938 experience. If anticipations can be falsified for a sufficiently long time the anticipations will themselves become changed. If people find, contrary to their expectations, that somehow the rate of interest is being maintained at 2½ per cent., they will cease to expect it to become otherwise. Moreover, not expecting it to become anything else, and not wanting to have money idle, they will take that rate of interest. Mr. Keynes appears to hold that if the "supply of liquidity" (which is the quantity of money and credit) is increased, and if this is somewhat large relatively to the supply of securities, it will be possible to draw the hungry investor after a not very (but sufficiently) tempting security.

Here, indeed, there is a core of truth, but it must be remembered that commodities as well as securities are a substitute for money. One of the factors which aided the steadiness of security prices between 1932 and 1938 was the comparative steadiness of the level of prices, a tendency for prices in 1937 to rise having been checked by 1938. During a war, and with increased supplies of liquidity (or money) a rise in prices is inevitable: all that is uncertain is the magnitude of the rise. But if prices are rising, a low money rate of interest may quickly turn to a negative real (or commodity) rate. Even the expectation that the money rate of interest will remain unchanged will cease to be relatively attractive then. And so far as the State is concerned if a low rate of interest (while it can be maintained) involves a comparatively high level of prices (*i.e.*, higher prices than if the rate of interest had been higher), the real burden of the debt will increase relatively greatly as (and if) the level of prices falls after the end of the emergency.

The controlled economy argument is the one which appears to be most strong. The freedom of the capital market has been much restricted already. In other markets, such as the markets for foreign exchange, large-scale experiments in control have been conducted more or less successfully for a number of years. By rationing the demand for capital and by granting priorities would it not be possible to achieve the success which would be impossible under *laissez-faire* conditions? Almost certainly a measure of success would be attained. But complete success would require complete control of supply; this was the lesson of the war years in the control of certain commodities, and the lesson of post-war years in the control of the exchanges. In the case of saving, a complete control of supply would involve such a restriction of the rights of ownership as to revolutionise our existing idea of property. Yet anything short of complete control would result in a "black capital bourse" which would constitute a standing menace to the official market.

The argument arising from political scepticism is an advocacy of sterner taxation. It may be admitted that, inasmuch as the cost of any war in the future—allowing not only for the cost of prosecuting the war, but also the enormous losses arising from the destruction of property—would be on a far greater scale than at any time in the past, some increase in taxation relatively to what would have been considered proper in the last war would be equitable under modern conditions. If, however, it is desired to go beyond this point, reducing the proportionate burden on posterity, then this can only be the resultant of a pessimistic view about the possibility of having any length of time in which to reduce the National Debt before yet another cataclysm overtakes us. Under such recurrent waves of adversity even a monumental National Debt would be swept away.

MR. L. B. BELL, C.A., EDINBURGH

We learn that, acting on medical advice, Mr. L. B. Bell, Secretary of the Society of Accountants in Edinburgh, has resigned in order to free himself from some of his more onerous responsibilities. Members and officials of the Society of Incorporated Accountants in Scotland and in London, who had occasion to meet Mr. Bell on matters of common professional interest, could not fail to recognise his unfailing friendliness and courtesy, and the thorough consideration he always gave to the subjects under discussion. It is to be hoped that his illness is only temporary, and that he will soon be fully restored to good health.

The new Secretary of the Edinburgh Society is Mr. Alexander Harrison, C.A., a partner of the firm of Messrs. Whitson & Methuen, C.A., Edinburgh. Mr. Harrison, who qualified in 1914, held a commission in the Royal Scots during the War, and, before joining the firm of which Sir Thomas Whitson is the head, practised for some time on his own account. He holds a number of important appointments.

Security Transfers

Emergency Regulations

The Defence (Finance) Regulations under the Emergency (Defence) Act, 1939, were issued on August 28. These regulations provide :—

1.—(1) The Treasury may by order direct (*a*) that, subject to any exemptions for which provision may be made by the order, no person shall, except with permission granted by or on behalf of the Treasury, sell, transfer, or do anything which involves the creation of a charge on, securities of any such class as may be specified in the order, being a class of securities which, in the opinion of the Treasury, are likely to be marketable outside the United Kingdom, and (*b*) that the owner of any securities of the said class shall, in such manner and within such period as may be specified in the order, make a return to the Bank of England giving such particulars with respect to those securities as may be so specified.

For the purposes of the above paragraph a person who mortgages or pledges a security shall be deemed thereby to create a charge on the security.

(2) At any time while an order made under the preceding paragraph with respect to securities of any class is in force, the Treasury, if they are of the opinion that it is expedient so to do for the purpose of strengthening the financial position of the United Kingdom, may, by an order made generally with respect to any specified securities of that class, or by directions given with respect to any securities of that class of which any particular person is owner, transfer to themselves the securities to which the order or directions relates or relate, at a price specified in the order or directions, being a price which, in the opinion of the Treasury, is not less than the market value of the securities on the date of the making of the order or the giving of the directions.

(3) Where any order is made, or any directions are given, under the last preceding paragraph with respect to any securities—

(*a*) those securities shall forthwith vest in the Treasury free from any mortgage, pledge or charge, and the Treasury may deal with the securities as they think fit ;

(*b*) the owner of any of those securities, and any person who is responsible for keeping any register or book in which any of those securities is registered or inscribed or who is otherwise concerned with the registration or inscription of any of those securities, shall do all such things as are necessary or as the Treasury or the Bank of England on their behalf may direct to be done for the purpose of securing that the security and any document of title relating thereto will be delivered to the Treasury or to such person as the Treasury may direct and, in the case of any registered or inscribed security, that the security will be registered or inscribed in the name of the Treasury or such person as the Treasury may direct.

(4) The duty to deliver any security under the last preceding paragraph shall include a duty to do all such things as are necessary to secure that any dividends or interest on that security becoming payable on or after the date of the making of the order or the giving of the directions will be paid to the Treasury ; and where, in the case of any security payable to bearer which is delivered in pursuance of the said paragraph, any coupons representing any such dividends or interest are not delivered with the security, such reduction in the price payable therefor shall be made as the Treasury think fit : Provided that, where the price specified in the order or directions in relation to any securities is ex any dividend or ex any interest, this paragraph shall not apply to that dividend or interest or to any coupon representing it.

(5) A certificate signed by any person authorised in that behalf by the Treasury that any specified securities are securities transferred to the Treasury under this Regulation shall be treated by all persons responsible for keeping any registers or books in which the securities are registered or inscribed, or who are otherwise concerned with the registration or inscription of those securities, as conclusive evidence that the securities have been so transferred.

(6) This Regulation shall not apply to any security if the Treasury are satisfied that at all times since the beginning of August 26, 1939, all the persons interested in the security, other than persons interested therein merely as trustees or merely by virtue of any mortgage, pledge, or charge created before the said day, but including any persons beneficially interested therein under a trust, were not resident in the United Kingdom.

2.—(1) Stamp duty shall not be chargeable on any security by reason only of the assignment, transfer, or negotiation thereof to the Treasury, and shall not be chargeable—(*a*) on any instrument whereby any security is assigned or transferred to the Treasury (whether on sale or otherwise), or (*b*) on any contract note for, or relating to, any sale of securities to the Treasury.

(2) This Regulation applies only in relation to assignments, transfers, negotiations or sales of securities effected during the continuance in force of this Regulation, whether in compliance with these Regulations or otherwise.

(3) In this Regulation the expression " contract note " has the meaning assigned to that expression by subsection (3) of section 77 of the Finance (1909-10) Act, 1910.

3. The provisions of Part V of the Defence Regulations, 1939, shall apply for the purpose of the enforcement of these Regulations, and otherwise in relation thereto, as if any reference in the said Part V to those Regulations included a reference to these Regulations.

4. In these Regulations, unless the context otherwise requires, the following expressions have the meanings hereby respectively assigned to them, that is to say :— " owner," in relation to any security, includes any person who has power to sell or transfer a security, or who has the custody thereof, or who receives, whether on his own behalf or on behalf of any other person, dividends or interest thereon, or who has any other interest therein ; and " security " includes shares, stock, bonds, debentures, debenture stock and Treasury bills, but does not include a bill of exchange or promissory note

RESEARCH

Incorporated Accountants' Research Committee

DESIGN OF ACCOUNTS

The Incorporated Accountants' Research Committee have undertaken the task of preparing specimen forms of accounts for various businesses and professions. Some of the specimen forms have already appeared in previous issues as follows:—

General Forms of Accounts	April, 1937	Engineers	March, 1938	Rubber Companies	November, 1938
Executors and Trustees	June, 1937	Farms	April, 1938	Schools	December, 1938
Bakeries	July, 1939	Garages	May, 1938	Shipping	January, 1939
Boot and Shoe Manufacturers	October, 1937	Hotels	June, 1938	Solicitors	March, 1939
Brickworks	November, 1937	Laundries	July, 1938	Stockbrokers	April, 1939
Building and Estate Development	December, 1937	Medical Practitioners	August, 1938	Textile Manufacturers	May, 1939
Cinemas and Dance Halls	January, 1938	Motor Transport	September, 1938	Voluntary Hospitals	August, 1939
Cotton Merchants	February, 1938	Printers	October, 1938		

Useful criticisms and suggestions which have been received from readers on the forms of accounts already published are being carefully considered by the Research Committee. The accounts—which should not be regarded as model accounts, but as bases for more definite formulation—are published with an invitation to readers to submit their comments and criticisms.

A design for Brewery accounts is set out below.

BREWERY ACCOUNTS

A. MALTING ACCOUNT FOR YEAR ENDED ——, 19—.

	£	£
I. **Stock of Finished Malt and Malt in Process at Commencement**		—
II. **Materials Consumed** (adjusted for Stocks of Materials):		
Barley		—
III. **Direct Wages and Expenses:**		
Wages	—	
State Insurance	—	
Coal	—	
	—	—
IV. **Indirect Expenses:**		
Rent	—	
Rates	—	
Insurance	—	
Sundry Expenses	—	
	—	—
V. **Balance: Profit,** carried to Profit and Loss Account		—
		£ —

	£	£
I. **Sales:**		
Malt dust	—	
Sundries	—	
	—	—
II. **Transfers to Cask Beer Trading Account**		—
III. **Stock of Finished Malt and Malt in Process at end**		—
		£ —

B. CASK BEER TRADING ACCOUNT FOR YEAR ENDED ——, 19—.

	£	£
VI. **Stock of Beer at Commencement**		—
VII. **Materials Consumed** (adjusted for Stocks of Materials):		
Hops	—	
Malt from Malting Account	—	
Malt purchased	—	
	—	—
Saccharum	—	
Caramel	—	
Isinglass	—	
Liquor	—	
	—	—
VIII. **Excise Duty**		—
IX. **Direct Wages:**		
Wages	—	
State Insurance	—	
Brewers' Salaries	—	
	—	—
X. **Indirect Expenses:**		
Rent	—	
Rates	—	
Insurance	—	
Wages:		
Foremen	—	
Cellarmen	—	
Beer Allowance (Cellars)	—	
Brewery Maintenance (analysed)	—	
Casks (Renewals or Depreciation)	—	
	—	—
XI. **Balance: Profit,** carried to Profit and Loss Account		—
		£ —

	£	£	£
IV. **Sales:**	Sales	Returns	
Tied trade	—	—	
Free trade	—	—	
Private trade	—	—	
	£ —	£ —	—
V. **Internal Transfers:**			
Bottling Department		—	
Free Beer for Employees (Cellars)		—	
			—
VI. **Miscellaneous Receipts:**			
Sale of Grains		—	
Sale of Yeast, etc.		—	
			—
VII. **Stock of Beer at End**			—
			£ —

C. BOTTLED BEER TRADING ACCOUNT FOR THE YEAR ENDED ——, 19—.

	£	£
XII. **Stock of Bottled Beer at Commencement**		—
XIII. **Materials Consumed** (adjusted for Stocks of Materials):		
Beers brewed	—	
Beers purchased in bulk ..	—	
Beers purchased in bottles ..	—	
	—	—
XIV. **Direct Wages:**		
Bottlers	—	
State Insurance	—	
	—	—
XV. **Direct Expenses:**		
Corks	—	
Labels	—	
	—	—
XVI. **Indirect Expenses:**		
Wages:		
Foremen	—	
Storekeepers, etc.	—	
Rent	—	
Rates	—	
Insurance	—	
Electricity	—	
Water	—	
Cases (Renewals or Depreciation)	—	
Bottles (Renewals or Depreciation)	—	
Sundry Expenses (suitably analysed)	—	
	—	—
XVII. **Balance: Profit,** carried to Profit and Loss Account		—
		£ —

	£	£
VIII. **Sales:**		
Tied trade	—	
Free trade	—	
Private trade	—	
		—
IX. **Stock of Bottled Beer at End** ..		—
		£ —

Note:—Where possible horizontal analyses under the headings "Beers brewed," "Beers purchased in bulk," and "Beers purchased in bottles," should also be employed.

D. WINE AND SPIRIT TRADING ACCOUNT FOR YEAR ENDED ——, 19—.

	Wines £	Spirits £
XVIII. **Cost of Sales:**		
Purchases	—	—
Add: Stock at Commencement	—	—
	—	—
Less: Stock at end ..	—	—
	—	—
XIX. **Gross Profit,** carried down ..	—	—
	£ —	£ —

	£	£
XX. **Establishment Expenses:**		
Wages	—	
Salaries	—	
State Insurance	—	
Rent	—	
Rates	—	
Insurance	—	
Sundry Expenses (suitably analysed)	—	
	—	—
XXI. **Balance: Profit,** carried to Profit and Loss Account ..		—
		£ —

	Wines £	Spirits £
X. **Sales:**		
Tied trade	—	—
Free trade	—	—
Private trade	—	—
	—	—
	£ —	£ —

	£	£
XI. **Gross Profit,** brought down:		
Wines	—	
Spirits	—	
		—
		£ —

E. ESTATE ACCOUNT FOR YEAR ENDED ——, 19—.

	£	£
XXII. **Property Expenditure :**		
Rents payable	—	
Fire Insurances	—	
Rates	—	
Surveyors' Salaries and Expenses	—	
Architects' Fees and Expenses	—	
Income Tax Schedule "A" ..	—	
Depreciation of Fixtures, etc.	—	
General Estate Maintenance (suitably analysed)	—	
XXIII. **Other Estate Expenditure :**		
Assessment Appeals	—	
Compensation Levy	—	
	—	—
XXIV. **Amortisation and Appropriations to Reserve :**	—	
Amortisation of Leases ..	—	
Reserve for Valuations ..	—	
	—	—
XXV. **Balance : Profit,** carried to Profit and Loss Account ..		—
		£ —

	£	£
XII. **Rents Receivable :**		
Licensed Premises	—	
Unlicensed Premises	—	
		—
XIII. **Balance: Loss,** carried to Profit and Loss Account		—

Note : If it is considered desirable, expenditure should be analysed horizontally under "Licensed Premises" and "Unlicensed Premises."

F. MANAGED HOUSES TRADING ACCOUNT FOR YEAR ENDED ——, 19—.

	£	£
XXVI. **Goods Consumed** (adjusted for Stocks) :		
Ales and Stouts	—	
Wines and Spirits ..	—	
Mineral Waters	—	
Cigars and Cigarettes ..	—	
Provisions	—	
	—	—
XXVII. **Wages and Salaries** (including State Insurance) :		
Bartenders	—	
Waiters and Waitresses ..	—	
Kitchen	—	
Domestic Staff	—	
Sundries	—	
	—	—
XXVIII. **Premises :**		
Rent, Rates and Insurances	—	
Income Tax, Schedule A ..	—	
Lighting	—	
Heating and Cooking ..	—	
Water	—	
Repairs and Renewals ..	—	
Cleaning Materials	—	
Depreciation of Fixtures ..	—	
	—	—
XXIX. **Furnishings :** *Renewals or Depreciation*		
Plate and Cutlery	—	
China and Glass	—	
Linen	—	
Furniture	—	
Carpets	—	
Laundry and Cleaning ..	—	
	—	—
XXX. **Sundries :**		
Licences and Compensation Levy	—	
Flowers and Plants	—	
Orchestras and Concerts ..	—	
Printing of Menus, etc. ..	—	
	—	—
XXXI. **Administration :**		
Managers' Salaries and Commission	—	
Office Salaries, Managed Houses	—	
Office Salaries, Head Office ..	—	
Printing, Postage and Stationery	—	
Telephone and Telegrams (less recoveries)	—	
Sundries	—	
	—	—
	—	

	£	£
XIV. **Sales :**		
Intoxicating and other Liquors ..	—	
Cigars and Cigarettes	—	
Apartments	—	
Catering	—	
		—
XV. **Sundry Receipts :**		
Garage	—	
Advertising	—	
Sales of Refuse	—	
Corkage	—	
Miscellaneous (suitably analysed)	—	
		—
XVI. **Balance : Loss,** carried to Profit and Loss Account		—

Note : A more detailed account suitable for this purpose was published in June, 1938, for Hotels, and may be substituted with slight alterations.

F. MANAGED HOUSES TRADING ACCOUNT—*Continued.*

	£	£		£
XXXII. **Advertising**		—		
XXXIII. **Finance :**				
Bad Debts		—		
XXXIV. **Balance : Profit,** carried to Profit and Loss Account ..		—		
	£	—	£	—

G. PROFIT AND LOSS ACCOUNT FOR YEAR ENDED ——, 19—.

	£	£		£	£
XXXV. **Transport :**			XVII. **Profits from Trading Accounts :**		
(a) **Horse Transport :**			Malting	—	
Horsekeep	—		Cask Beer	—	
Repairs to Vans ..	—		Bottled Beer	—	
Repairs to Harness ..	—		Wines and Spirits	—	
Repairs to Stables ..	—			—	
Wages	—		Estate	—	
State Insurance ..	—		Managed Houses	—	
Depreciation of Vans..	—				—
Depreciation of Horses	—		XVIII. **Subsidiary Companies :**		
Depreciation of Stables	—		Dividends	—	
Hire of Horse Transport	—		Interest	—	
		—			—
(b) **Motor Transport :**			XIX. **Finance :**		
Petrol and Oil ..	—		Discounts received	—	
Repairs	—		Bank Interest	—	
Licences and Insurance	—		Other Interest	—	
Wages	—		Interest from Investments ..	—	
State Insurance ..	—				—
Depreciation of Motors	—		XX. **Miscellaneous Receipts :**		
Obsolescence of Vehicles	—		Advertising	—	
Hire of Motor Transport	—		Bonuses	—	
		—			—
XXXVI. **Selling Expenses :**			XXI. **Balance : Net Loss,** carried to Appropriation Account ..		—
Advertising	—				
Travellers' Salaries and Commissions	—				
Travellers' Motor and other Expenses	—				
Depreciation of Travellers' Cars	—				
Obsolescence of Travellers' Cars	—				
		—			
XXXVII. **Administration :**					
Inspectors' Salaries and Expenses	—				
Office Salaries	—				
State Insurance	—				
Pensions	—				
Rent, Rates and Insurance	—				
Lighting and Heating ..	—				
Licence Duties	—				
Printing and Stationery ..	—				
Postages	—				
Telephone	—				
Sundry Office Expenses ..	—				
Depreciation of Office Furniture	—				
Trade Subscriptions and Contributions	—				
Travelling Expenses ..	—				
Audit Fees	—				
Legal Expenses	—				
		—			
XXXVIII. **Finance :**					
Discounts allowed	—				
Bank Interest	—				
Interest on Deposits ..	—				
Debenture Interest.. ..	—				
Bad Debts and Debt Collection Expenses	—				
		—			
XXXIX. **Balance : Net Profit,** carried to Appropriation Account..		—			
	£	—		£	—

H. PROFIT AND LOSS APPROPRIATION ACCOUNT FOR YEAR ENDED ——, 19—.

	£	£
XL. **Directors' and Trustees' Remuneration :**		
Directors	—	
Trustees	—	
		—
XLI. **Taxation :**		
Income Tax, Schedule D ..	—	
N.D.C.	—	
		—
XLII. **Transfers to Reserve :**		
Rebuildings Account	—	
Debenture Sinking Fund ..	—	
Contingencies Reserve ..	—	
General Reserve	—	
		—
XLIII. **Interim Dividends**		—
XLIV. **Balance, Carried Forward** ..		—
		£ —

	£	£
XXII. **Balance from Last Year** ..	—	
Deduct : Final Dividends paid	—	
		—
XXIII. **Net Profit,** brought down ..		—
XXIV. **Transfer Fees**		—
		£ —

Thanks are due to Mr. G. S. Hamilton, A.C.A., author of "Brewery Accounting," for his helpful suggestions during the preparation of the above accounts.

COURSES IN MECHANISATION

Four years ago the Brixton Commercial Institute where Mr. F. A. Roberts, A.S.A.A., is the Head of the Accountancy Department, offered the first course in mechanisation under the London County Council. In each year since the arrangements have proved most attractive to members of the profession.

The course commences on Wednesday, September 27, 1939, at 7.30 p.m. As most of the lectures are given in Central London it is not necessary for members to travel to Brixton—except for occasional evenings during the Session which are set aside for consolidation of the matter covered by the visits to the showrooms and lecture rooms of the manufacturers.

There are both first and second year courses. By special arrangement with the manufacturers senior officials from various leading organisations lecture from time to time on the particular installations under their control. Every consideration will be given to meet the convenience and requirements of the general body of members. The course extends from September to Easter (one evening per week) and the fee is 9s.

Particulars can be obtained from The Principal, Brixton Commercial Institute, 54-56, Brixton Hill, S.W.2.

A course on Mechanised Accountancy will be given by Dr. E. C. McWilliam, F.C.A., at the City of London College, Moorfields, E.C.2, commencing on October 2, 1939. The course, involving about 24 meetings on Mondays (normally 6.0-8.0 p.m.), will consist of expository lectures at the College and also lecture-demonstrations given on the premises of leading makers of accounting machinery.

The fee to all students resident in the County of London, and to most other students will be 25s. 6d. Application forms are available from the Secretary of the College.

Another course on the subject is to be held in connection with the Business Administration Department of the Balham and Tooting Day School of Commerce, Tooting Broadway, S.W.17. The necessary machines will be at the School for demonstration purposes and visits will be arranged for the study of other types of accounting machines. The course will last for ten weeks and meetings will be held on Wednesdays from 2.15-5.15 p.m. commencing September 27, 1939.

There are considerable concessions for accountancy students under the age of 21 who are released by their employees to attend this course. Full particulars can be obtained from the Principal, at the School.

INDIAN INSURANCE ACT

We have received a copy of a booklet, *Salient Features of the Insurance Act,* 1938, prepared by R. K. Dalal and N. J. Shah, Incorporated Accountants. The booklet summarises in useful fashion and in non-technical language the provisions of the new Indian Insurance Act. The Act is a far-reaching modification of the Indian law of insurance, which was heretofore based on the British Insurance Act of 1909. Opinion in Great Britain is critical of a number of the provisions of the new Indian Act especially those relating to the appointment of a Superintendent of Insurance and the regulation of the types of assets which may be held.

Society of Incorporated Accountants

DISTRICT SOCIETIES AND BRANCHES

BENGAL

Annual Meeting

The sixth annual general meeting of the Incorporated Accountants' Bengal and District Society was held on June 28. The following office-bearers and Committee were elected: President, Mr. M. D. Darbari; Honorary Secretary, Mr. G. Basu; Honorary Treasurer, Mr. S. K. Ghosh. Committee: Mr. N. Sarkar, Mr. N. C. Chakravarti, Mr. V. F. Viccajee, Mr. H. C. Das, Mr. P. K. Mitra, Mr. S. K. Kar, Mr. S. K. Sen, Mr. A. M. Mukherjee.

Annual Report

The Committee have pleasure in presenting to the members their report on the activities of the Society for the year ended March 31, 1939.

MEMBERSHIP

Five members and five students were added to the list of members. The Committee feel that the interest of the Incorporated Accountants on this side of India could be safeguarded only by combination and hope that all who are outside the Society will soon come within its fold.

SOCIAL EVENT

The Annual Dinner of the Society was held in February in a garden house in Behala, and the members, their wives and their guests spent an enjoyable evening.

STUDENTS' SECTION

Owing to the small number of articled clerks the Students' Section has not been as active as it should be. Mr. J. Francis, A.C.A., gave a series of lectures. The Committee invite suggestions.

LIBRARY

Additions were made to the Library during the year, and it is proposed to make further substantial additions

BOMBAY DISTRICT SOCIETY

Close co-operation was maintained with the Bombay Society on all matters of interest to the Incorporated Accountants in India.

INCOME TAX

The Committee met the Member, Central Board of Revenue, Government of India and discussed various matters of interest to the profession in relation to income-tax. The Committee submitted a memorandum on the Income Tax Bill, 1938. The Committee were in close touch with the Commissioner of Income Tax, Bengal.

INDIAN ACCOUNTANCY BOARD

The term of the Indian Accountancy Board has again been extended and the Central Government is holding the first election for appointment of members. The Committee have nominated Mr. G. Basu as a candidate for election.

REPRESENTATION TO THE PARENT SOCIETY

Mr. N. F. Master, a member of this Society who is on a visit to England, has been deputed to meet the officials of the parent Society.

HULL

Annual Report

The Committee has pleasure in submitting to the members its tenth annual report for the year ended March 31, 1939.

MEMBERSHIP

The total membership is 181, including 105 Incorporated Accountants and 76 students.

STUDENTS' SECTION

It is encouraging to note that attendances of students at the lectures held during the year continued to show a satisfactory average. Nine meetings and lectures were held during the 1938-39 Session.

The annual dance was well attended, and students, members and friends spent a very enjoyable evening.

LIBRARY

A Sub-Committee has considered members' suggestions for books to be included in the Library and a number of these have been purchased. The Sub-Committee is preparing a catalogue.

EXAMINATIONS

The Committee is pleased to report the success of 15 candidates at the Examinations of the Society held in 1938.

OFFICIAL DINNER

An official dinner was held at the Guildhall, Hull, on January 13, 1939, at which the guest of the evening was the President of the Parent Society, Mr. W. Holman, F.S.A.A. A gathering of 88 members and guests included the Lord Mayor of Hull (Alderman W. Pashby, J.P.) and representatives of civic, professional and commercial interests within the area covered by the District Society.

POST GRADUATE COURSE, OXFORD

The course, held at Oxford in July last, was attended by seven members of this District Society. They heartily recommend these courses to the consideration of members in the future.

OTHER ACTIVITIES

During the year the District Society was represented at the annual meeting of the Society and the Conference of Branch and District Societies, and certain functions held by other professional bodies and District Societies.

The District Society is indebted to Mr. A. H. Crumpton who during the year gave £52 10s. to be utilised as the nucleus of a Prize Fund.

At the commencement of the year Mr. A. E. Norfolk resigned from his office as Vice-President. The Committee records its appreciation of his services in this capacity and welcomes his desire to remain a member of the Committee.

The Committee sincerely thanks all members and students who have assisted in the organization and work of the District Society, and ventures to hope for an expansion of interest during the coming year.

MANCHESTER

Annual Report

The Committee present to the members a report of the activities of the Society since the issue of the last report.

They are pleased to be able to report that interest in the Society and attendances at meetings have been maintained.

MEETINGS

Twenty meetings were held during the 1938-39 session by the District Society and the Students' Section.

LIBRARY

The Committee wish to thank those who have presented books during the year.

INTERCHANGE OF COURTESIES

The President and Vice-President and Hon. Secretary have accepted a number of invitations to attend, as representatives of this Society, civic functions, and the dinners and meetings of other professional societies and district societies.

MEMBERSHIP

On March 31 there were 509 members, of whom 212 are practising members.

CENTENARY OF INCORPORATION SERVICE AT THE CATHEDRAL

At the official service arranged by the Corporation on May 8, 1938, for which invitations had been issued by the Lord Mayor, the Society was represented by the President and Secretary.

GUILDHALL DINNER

The very successful dinner of the Parent Society on March 16, 1939, at which H.R.H. the Duke of Kent, K.G., was the principal guest, was attended by the President and Vice-President and several members of the Manchester Society.

STUDENTS' SECTION

Six lectures and three discussion meetings were held during the session and one evening was devoted to short papers by students. The improvement in attendances at lectures noted in the last report has been more than maintained. The experiment of holding discussion meetings has proved successful, but the Committee hopes that these meetings will receive more support in the forthcoming session.

The fifth number of the Students' Journal, " Contact," was issued in the autumn, 1938.

Suggestions from students are welcome.

A record of attendances has been kept and the Committee has again decided to recognise those students whose attendance and general interest have been particularly good. Accordingly prizes of books are being presented to A. Davenport, K. N. Le Maitre, B. S. Lightfoot, F. McKenna, W. Orry, G. Patterson, J. Peberdy and S. Westbrook.

ABUSES OF COMPANY LAW

A Sub-Committee has met on several occasions, and given consideration to abuses in connection with the issue of debentures, the appointment of receivers, the adverse effect upon creditors, etc. Certain recommendations have been formulated for submission to the parent Society and are under further consideration of the Manchester Committee.

PENSION SCHEME

Consideration has been given to the formulation of a suitable pension scheme for the benefit of employees of practising Incorporated Accountants. The Committee has signified its approval of the principle and a recommendation has already been made through the District Societies' Conference in London. The matter is being examined further.

OFFICIAL SECRETS ACT

The District Society was represented at a public meeting called to put the case for amendment of the Official Secrets Act in relation to abuses which had occurred. The meeting was attended by some 380 delegates of various organisations representing nearly half a million people and a rlesoution asking the Government to take the necessary steps for amendment was unanimously adopted.

DISCUSSION MEETINGS

Discussion meetings have been held monthly from October, 1938, to March, 1939. The subjects dealt with covered a wide range and included, amongst others, N.D.C., stock valuations, income tax, company matters and matters of professional interest.

WEST OF ENGLAND

Annual Meeting

The annual meeting of the West of England District Society was held at Bristol on July 25. Mr. F. A. Webber presided over a fair attendance.

The retiring members of the Committee, Mr. Sidney Foster, Mr. E. S. Hare and Mr. C. B. Steed, were reappointed, and Mr. R. F. Emmerson was re-elected Auditor.

At a meeting of the Committee subsequently held, the following Officers were appointed for the ensuing year: President, Mr. H. O. Johnson (Bath); Vice-President, Mr. F. P. Leach (Bristol).

Annual Report

The Committee have pleasure in presenting the report of the work of the Society for the year ended March 31, 1939.

MEMBERSHIP

The total membership to date is 240, represented by 53 Fellows, 133 Associates and 54 Students.

LECTURES

Six lectures were given at Bristol and three at Gloucester.

EXAMINATIONS

Fourteen students were successful at the examinations of the Society held in May and November, 1938, eight in the Final and six in the Intermediate.

RESEARCH GROUP

Eight meetings of the Research Group were held on the subject of the " Value of Goodwill," and it is hoped to issue a report early next session.

CONFERENCE, ETC.

The District Society was represented by the President and Vice-President at a Conference of representatives of District Societies, held in London in May, and at the London Guildhall in March, when H.R.H. The Duke of Kent was the chief guest of the Society at dinner.

MEMBERSHIP

The following additions to and promotions in the membership of the Society have been completed since our last issue :—

ASSOCIATES TO FELLOWS

Bunting, Fred, Borough Treasurer, Luton; **Cope,** Ivor John, Doncaster, Practising Accountant; **Dowell,** Thomas John, Borough Treasurer of Willesden; **Mac-**

donald, Alexander (A. Macdonald & Co.), Hull, Practising Accountant; **Mitra,** Provat Kumar, B.Sc. (P. K. Mitra & Co.), Calcutta, Practising Accountant; **Platts,** Harry Bennett (H. Bennett Platts & Co.), Nottingham, Practising Accountant; **Scott,** Henry (Forster, Scollick & Co.), Newcastle-upon-Tyne, Practising Accountant; **Ward-Smith,** William Dudley (Ward-Smith and Co.), Shanghai, Practising Accountant; **Welford,** Leslie Roy (C. R. Davey & Co.), London, Practising Accountant.

ASSOCIATES

Adams, Frederick Stephen, County Accountant's Department, Maidstone; **Allen,** Norman Keymer, formerly with Bolton, Pitt & Breden, London, E.C.4; **Anderson,** John Ellis, with Chalmers, Wade & Co., Liverpool; **Argent,** Arthur George, with Allan G. Hill, London; **Armitt,** Arthur, Deputy Borough Treasurer, Heywood, Lancs.; **Baddiel,** Benjamin (Baddiel, Sleeman & Co.), Swansea, Practising Accountant; **Baker,** Leslie Thomas Bridges, with Bland, Fielden & Co., Colchester; **Barry,** Kevin Patrick, with F. R. O'Connor, Dublin; **Bentley,** Edgar, with G. L. Hirst, Dewsbury; **Blades,** Bendix Blades, with Clark, Battams & Co., London; **Broadhurst,** Geoffrey, with Charles D. Buckle & Co., Bradford; **Brown,** Norman Edward, Borough Treasurer's Department, Taunton; **Burrows,** John Henry, with Painter, Mayne & Walker, London; **Campbell,** John, with James Condie & Co., Dunfermline; **Carrington,** Jeffrey Valentine, with Edward A. Woods, Northampton; **Cheetham,** John Duncan Ritchie, with Highfield, Prichard & Mumby, Liverpool; **Clark,** John, with Cryer & Kitchen, Keighley; **Cleare,** Raymond Dennis, with Kemp, Chatteris, Nichols, Sendell & Co., London; **Crow,** Derrick Longridge, City Treasurer's Department, Leeds; **Darby,** Norman, with H. Worsley & Son, Bolton; **Davidson,** John (Stewart, Steyn & Co.), Johannesburg, Practising Accountant; **Davies,** Charles Trevor Morgan, formerly with F. J. Warren & Son, Haverfordwest; **Deeley,** Charles Harold Fraser, with Harold Brown & Co., Birmingham; **Dennis,** Charles George, Borough Treasurer's Department, New Malden; **Derry,** Edward George Chadwick, with Deloitte, Plender, Griffiths & Co., London; **Duggan,** Robert Henry Griffin, with Edward Thomas Peirson & Sons, Coventry; **Emmings,** Thomas James Jackson, Borough Treasurer's Office, Southampton; **French,** Clifford Albert, Borough Treasurer's Office, Southampton; **Fryer,** Arnold William, with Whitehead and Aldrich, Preston; **Gee,** Leslie Gordon, with W. H. Roberts & Co., London; **Ghose,** Brajadulal, B.Com., with S. N. Mukherji, Calcutta; **Gillott,** Alec, with Carline, Watson, Bird & Co., Chesterfield; **Gregg,** Vernon Stewart, with Milne, Gregg & Turnbull, London; **Hall,** William Horner, with Hodgson, Harris & Co., Hull; **Haller,** Arthur Abe, formerly with Gill & Johnson, Nairobi, Kenya Colony; **Halliday,** Joseph William, with Evans Smith, Boothroyd & Co., London; **Hands,** Howard Ronald, with Aston, Wilde & Co., Birmingham; **Harding,** Eric Wilfred, with Gully, Stephens, Ross and Gregory, London; **Heydon,** Alfred Edward, with Armitage, Norton, Boyce & Co., London; **Hibbs,** Lewen Edward George, formerly with A. C. F. Hardwicke, Weymouth; **Hickmott,** Frank Vernon, with A. E. Quaife & Gower, London; **Horton,** Geoffrey Philip, Borough Treasurer's Office, Maidstone; **Howell,** Cornelius John, with H. Lomax & Co., Manchester; **Hulme,** Robert Rookes, formerly with R. D. Black, London; **Johnson,** Spencer Ronald, Borough Treasurer's Department, Stretford; **Joshua,** Trefor Wynne, with Brinley, Bowen & Mills, Swansea; **Judd,** George Stanley, with Arthur M. Hobbs & Co., London; **Kirk,** Donald Henry, with Spain Brothers & Co., London; **Laughey,** Albert Francis, with J. E. L. Brough, Ripon; **Leech,** Leslie Joseph, with F. Arthur Pitt & Co., Manchester; **Loughrey,** Patrick Joseph, with Kennedy, Crowley & Co., Dublin; **Lund,** Eric Arthur, City Treasurer's Office, York; **Madan,** Jamshed Burjor, with S. B. Billimoria & Co., Bombay; **Manderson,** James Alan Watson, with Shannon, Kneale & Co., Douglas (I.O.M.); **Mogridge,** William John Arnold, formerly with Janes & Silley, Paignton; **Morgan,** Harold Olver Shefford, Borough Treasurer's Office, West Bromwich; **Murphy,** Denis Charles, with Nevill, Hovey, Gardner & Co., London; **Ottaway,** William Robert Henry, with Josolyne, Miles, Page & Co., London; **Padgham,** Frank Norman, Assistant Treasurer, Whitby Urban District Council, Whitby; **Palmer,** Herbert Henry, County Treasurer's Department, Hereford; **Parker,** William John, with Price, Waterhouse and Co., London; **Parnaby,** James, with Buckley, Hall, Devin & Co., Hull; **Pattison,** James Ernest (junior) (J. E. Pattison & Son), Gateshead, Practising Accountant; **Price,** Stanley, with Fredk. J. Webb, Krinks and Thomas, Bournemouth; **Primost,** Sydney Simon (S. Primost & Co.), London, Practising Accountant; **Pring,** Herbert Ernest John, with Whinney, Smith & Whinney, London; **Roberts,** Frank Sydney, with Thomson, McLintock & Co., Birmingham; **Robson,** Edward, Deputy Treasurer, Cheadle and Gatley Urban District Council, Cheadle; **Rogers,** Arthur Leslie, with Drury, Thurgood & Co., London; **Russell,** Bernard John, with E. E. Osmond, London; **Shippey,** Sydney, with Peat, Marwick, Mitchell & Co., Middlesbrough; **Skaith,** George Edward, with William Munro, Grimsby; **Skirrow,** Fred Shackleton, with Talbot, Ellis, Jack & Co., London; **Smith,** Thornton, with Joseph Miller & Co., Newcastle-on-Tyne; **Stanley,** Kenneth Ravenscroft, with H. Howarth, Lancaster; **Steyn,** Benjamin David, Pretoria, S. Africa (Reinstated); **Stoddard,** Norman Samuel, with M. P. Ferneyhough & Co., Longton, Stoke-on-Trent; **Sutherland,** Angus, with Reddall, Osborn and Co., London; **Taylor,** Colin Ogden, with J. H. Alexander & Co., Leeds; **Tippetts,** Harold Anthony, with Aston, Wilde & Co., Birmingham; **Turner,** Charles Brian Godsell, with Cash, Stone & Co., London; **Tutty,** John Porter, with Hodgson, Harris & Co., Hull; **Wadwell,** George, with Hodgson, Harris & Co., Hull; **Walters,** Roy Mabley, with Arthur G. Mortimer, London; **Ward,** Sydney, Borough Treasurer's Office, Gravesend; **Watson,** Joseph Christopher, with Thorne, Lancaster & Co., London; **Weightman,** James Stanley, with A. E. S. Barker, West Hartlepool; **Woolley,** John Stephen, with Hodgson, Harris & Co., Hull; **Worboys,** Harold White, with H. W. Pratt, Pollard & Co., Wellingborough.

PERSONAL NOTES

Mr. C. A. Butt, Incorporated Accountant, of Coulsdon, Surrey, has been appointed Finance Officer to the Research Association of Rubber Manufacturers.

Mr. C. Clive Saxton, Incorporated Accountant, has obtained a second class in the Moden Greats School at Oxford University.

Mr. H. C. Rose, Incorporated Accountant, has commenced public practice at 59, Shaftesbury Avenue, Piccadilly, London, W.

Mr. F. Handel, Incorporated Accountant, has commenced public practice at 31-33, High Holborn, London, W.C.

Mr. J. H. R. Eastwood, Incorporated Accountant, and Mr. R. E. Wallace, Incorporated Accountant, have entered into partnership with Mr. T. A. Lawrie, and are practising at A.B.C. Chambers, Simmonds Street, Johannesburg, under the style of Lawrie, Eastwood and Wallace.

Mr. T. Craggs, Incorporated Accountant, is now a partner in the Darlington branch of Messrs. Chipchase, Wood & Co.

REMOVALS

Mr. Alfred S. John, Incorporated Accountant, has removed his offices to 5, St. Catherine Street, Pontypridd.

Mr. Clifford Thornton, Incorporated Accountant, has removed his offices to 15, Cross Street, Preston.

CHANGE

Messrs. Turquand, Youngs, McAuliffe & Co. have admitted Mr. J. S. Brittain, A.C.A., F.S.A.A., into their London partnership.

OBITUARY

Robert Heatley

A large number of members of the Society will have heard with regret of the death of Mr. Robert Heatley, senior partner of Messrs. Robert Heatley & Co., Incorporated Accountants, Manchester.

The late Mr. Heatley became a member of the Society in December, 1889, and throughout his professional career took an active interest in its affairs.

The Committee of the Manchester District Society, of which Mr. Heatley was a member for many years, elected him President of that Society in the year 1924-25. From 1919 to 1934 he was one of the auditors of the Society of Incorporated Accountants.

His genial personality and keen sense of humour brought him popularity in both professional and other circles. He was keenly interested in sport and at one time was an enthusiastic member of the Agecroft Rowing Club and of the Western Cricket Club. He was the first Auditor of the Swinton Rugby Football Club, an office which he held to the date of his death, for a period of 35 years.

The practice of Messrs. Robert Heatley & Co. will be continued by his son, Mr. Norman K. Heatley, F.S.A.A.

Harry Harper-Smith

The death of Mr. Harry Harper-Smith, which took place at Norwich on August 27, removes from the Society of Incorporated Accountants an interesting personality who was well known to a large number of Incorporated Accountants, particularly those in East Anglia, where he carried on a practice.

The whole of his life was spent in the City of Norwich, where he was educated at the King Edward VI School. After a few years' commercial experience, he commenced public practice over 45 years ago, and founded the firm now known as Messrs. Harper-Smith, Moore & Co., of which he was the senior partner. The practice of Messrs. Harper-Smith, Moore & Co. will be carried on by the surviving partners.

He became a member of the Society in 1898 and was one of those who were instrumental in establishing the East Anglian Society of Incorporated Accountants some 10 years ago, being its first President. His interest in the affairs of that District Society were unabated, and Mr. Harper-Smith was a welcome figure at gatherings of Incorporated Accountants both in Norwich and elsewhere.

In addition to his professional work, Mr. Harper-Smith had a long record of public service in the City of Norwich. He first became a member of the Corporation of Norwich immediately after the War and, except for a short break, remained a member to the time of his death. The esteem with which he was held by his fellow-citizens was amply demonstrated when in 1929 he was elected Lord Mayor of Norwich. He served as Sheriff some eight years earlier, and subsequent to his mayoralty he was elected an Alderman. Mr. Harper-Smith thoroughly enjoyed his year of office as Lord Mayor, and carried out his duties with considerable distinction.

Among his other interests were the Jenny Lind Hospital for Children, of the Committee of Management of which he had been the chairman, and he was one of the organisers of the Norfolk and Norwich Music Festivals. He was very much attached to the Broads, and had been Commodore of the Yare and Bure Sailing Club, and his hobbies included motoring and golf.

Mr. Harper-Smith is survived by his widow, Mrs. Harper-Smith.

GOLFING SOCIETY

The summer meeting of the Society was held at Liphook, Hants, on July 1 and 2. The Saturday morning Medal Competition for Incorporated Accountants for a prize presented by Mr. Walter Holman was won by Mr. F. C. A. Gorst, 87—15=72, this being two under bogey. The runner-up was Mr. L. I. Prager, 94—15=79.

The Medal Competition for visitors resulted in a tie between Mr. T. A. Clarke-Lens, 96—18=78, and Mr. C. J. Craddock, 98—20=78, the former being awarded the prize on the best last nine holes. In the afternoon a Four-ball Bogey Competition was held, open to members and visitors, and was won by Mr. O. Kennedy and Mr. T. A. Clarke-Lens, 2 up on bogey.

The Sunday morning Medal Competition for Incorporated Accountants for a prize presented by Mr. E. R. Inge resulted in a tie between Mr. H. Townsend, 91—10=81, and Mr. A. Whatley, 93—12=81. The former was awarded the prize for the best last nine holes.

The Medal Competition for visitors was won by Mr. J. O. Kennedy, 83—9=74.

On the Saturday, Mr. F. W. Buzzacott did the 12th hole, measuring 130 yards, in one stroke.